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Framework and Value Drivers for Real Estate Development in Sub-Saharan Africa

**Assessment of the
Tanzanian Real Estate Sector
in the Context of the
Competitiveness Model**



International Real Estate Business School
Universität Regensburg



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Dedication

Daddy (Marcian Gerald Chiwambo), I know how you would feel to see me achieve this. I really miss your presence when making this achievement, but I will always cherish your wisdom. May your soul rest in peace. Amen.

In many countries, real estate is a major component of the economy. For instance, for some countries, the contribution of commercial real estate to the GDP in 2010 was 28% (US), 28% (UK), 25% (Germany), 18% (France), 15% (Italy), 8% (Spain). In 2009, the sector accounted for 5% and 12.6% of India and China's GDP respectively. The real estate sector in Tanzania is currently still underdeveloped, but the ongoing institutional reforms have significantly improved its growth. Over the reform period, the sector has attracted a considerable number of institutional and private investors, both local and foreign developers. Using local and foreign real estate developers, real estate professionals, land officers, officials from financial institutions, Tanzania Mortgage Refinance Company (TMRC), Tanzania Investment Centre (TIC), and Tanzania Bureau of Standards (TBS), this study reveals that, despite a more active property market which has come as a results of the reforms, the sector is relatively still growing slowly. Generally, the sector is not growing at a pace that is practically and economically justified. The average growth rate for the past 20 years (1992-2011) was 4.9%. Over the same period, the sector's average contribution to the GDP has been only about 4.5%.

The Tanzania real estate sector is analysed using Porter's competitiveness Model provided. The study comes up with a number of strategies for achieving the sector's competitiveness and growth. In addition to that, a number of recommendations on the best practice that the sector should pursue are given. Owing to differences in market settings between developed and developing countries, Porter's Model was modified to fit the Tanzania setting. In addition to Porter's competitiveness Model, the study also uses and modifies the framework provided by Poorvu and Cruikshank. Poorvu's and Cruikshank's Model is used to analyse the property development framework for enhancing the sector's growth. The study reveals a number of barriers to the sector's growth. Ineffectiveness of various institutions dealing with real estate activities seems to discourage real property development and investment. Having been exposed to a foreign market, foreign real estate developers and investors seem to face more challenges compared to local property developers. The study also reveals that, the slow pace of the sector's growth is partly due to its inability to exploit the value drivers which create competitive advantage. The findings further show that, abundant land, rise in demand for properties, political stability, presence of TIC and its investment incentives for the real estate sector, institutional reforms and improved key economic

indicators are necessary criteria but not sufficient factors for achieving the state of competitiveness in the real estate sector. There is a need of addressing the sector's weaknesses. Realisation of the sector's full potential requires real estate developers and investors' objectives and motivations to be aligned with the sources of competitiveness.

This book is a first step in establishing a benchmark stone for Tanzanian's and other sub-Saharan Africa's real estate market's future research activities focusing on economic sectors' competitiveness. The work is distinctive as it applies Porter's Model to explain how real estate sector would achieve growth and competitiveness. Apart from stimulating debate and thinking on the subject, future research may be carried out to empirically test the applicability of the proposed competitiveness model in sub-Saharan African countries. Additionally, the study could be used to rank the importance of the competitiveness dimensions so as to identify the most significant dimensions for the real estate sector in the different countries within the region.

THE FACULTY OF BUSINESS ECONOMICS AND MANAGEMENT INFORMATION SYSTEMS AT THE UNIVERSITY OF REGENSBURG has awarded the author with a Dr. rer.pol. Apart from the academic contribution, the findings of this study also have significant implications for policy makers, construction industry, institutions dealing with real estate matters, real estate professionals and stakeholders in achieving sector's full potential through enhanced competitiveness and growth.

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May God bless you all.

Sophia Marcian Kongela
Regensburg, April 2013

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ACB	Akiba Commercial Bank
AfDB	African Development Bank
AfRES	African Real Estate Society
AHP	Analytical Hierarchy Process
AQSRB	Architects and Quantity Surveyors Registration Board
ARU	Ardhi University
BEST	Business Environment Strengthening Tanzania
BOA	Bank of Africa
BoQ	Bill of Quantity
BOT	Build-Operate-Transfer
BoT	Bank of Tanzania
BRELA	Business Registration and Licensing Agency
BRIC	Brazil, Russia, India and China
CAHF	Centre for Affordable Housing Finance in Africa
CASLE	Commonwealth Association of Surveying and Land Economy
CBA	Commercial Bank of Africa
CBDs	Central Business Districts
CIS	Collective Investment Scheme
CMBS	Commercial Mortgage-backed Securities
CMSA	Capital Markets and Securities Authorities
CoET	College of Engineering and Technology
CRB	Contractors Registration Board
CRDB	Co-operative and Rural Development Bank
CRE	Corporate Real Estate
CREM	Corporate Real Estate Management
DANIDA	Danish International Development Agency
DAWASCO	Dar es Salaam Water and Sewerage Corporation
DCB	Dar es Salaam Community Bank
DfID	Department for International Development
DILAPS	Dar Es Salaam Institute for Land Administration and Policy Studies
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
EIA	Environmental Impact Assessment

EPZ	Export Processing Zone
ERB	Engineers Registration Board
FDI	Foreign Direct Investment
FREI	Foreign Real Estate Investment
GCF	Gross Capital Formation
GDP	Gross Domestic Product
GEPF	Government Employees Provident Fund
HFP	Housing Finance Project
IBRD	International Bank for Reconstruction and Development
ICC	International Chamber of Commerce
ICSID	International Center for the Settlement of Investment Disputes
IFC	International Finance Corporation
ILO	International Labour Organisation
ILFS	Integrated Labour Force Survey
IMF	International Monetary Fund
IPC	Investment Promotion Centre
IPD	Investment Property Databank
IREBS	International Real Estate Business School
ISU	Institute of Surveyors Uganda
KCB	Kenya Commercial Bank
LAPF	Local Authorities Pensions Fund
MEM	Ministry of Energy and Minerals
MFEA	Ministry of Finance and Economic Affairs
MIGA	Multilateral Investment Guarantee Agency
MoLHHSD	Ministry of Lands, Housing and Human Settlements Development
NACSAP	National Anticorruption Strategy and Action Plan
NBC	National Bank of Commerce
NBS	National Bureau of Statistics
NCPS	National Council of Professional Surveyors
NEMC	National Environmental Management Council
NEPAD	New Partnership for Africa's Development
NGOs	Non Governmental Organisations
NHC	National Housing Corporation

NLUPC	National Land Use Planning Commission
NMB	National Microfinance Bank
NPV	Net Present Value
NSGRP	National Strategy for Growth and Reduction of Poverty
NSSF	National Social Security Fund
OECD	Organisation for Economic Co-operation and Development
OPIC	Overseas Private Investment Corporation
PCCB	Prevention and Combating of Corruption Bureau
PPF	Parastatal Pensions Fund
PPP	Public-Private-Partnership
PREA	Pension Real Estate Association
PSPF	Public Service Pensions Fund
PwC	PricewaterhouseCoopers
REEs	Real Estate Enterprises
REIT	Real Estate Investment Trust
RICS	Royal Institution of Chartered Surveyors
ROI	Return on Investment
SADC	Southern African Development Community
SIDA	Swedish International Development Agency
SPILL	Strategic Plan for the Implementation of the Land Laws
SRES	School of Real Estate Studies
SSA	Sub-Saharan Africa
SWOT	Strengths, Weaknesses, Opportunities and Threats
TACECA	Tanzania Civil Engineering Contractors Association
TANESCO	Tanzania Electric Supply Company
TBA	Tanzania Building Agency
TBS	Tanzania Bureau of Standards
THB	Tanzania Housing Bank
TIB	Tanzania Investment Bank
TIC	Tanzania Investment Centre
TIVEA	Tanzania Institution of Valuers and Estate Agents
TMRC	Tanzania Mortgage Refinance Company
TNBC	Tanzania National Business Council

TRA	Tanzania Revenue Authority
TZS	Tanzania Shilling
UAE	Union of Arabs Emirates
UK	United Kingdom
ULI	Urban Land Institute
UN	United Nation
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organization
URT	United Republic of Tanzania
USA	United State of America
USA	United States of America
USAID	United States Agency for International Development
US \$	United States Dollar
UTT	Unit Trust of Tanzania
VAT	Value Added Tax

1 Introduction

1.1 Problem Outline and Research Objectives

1.1.1 Problem Outline

Since the mid 1980s, Tanzania took macroeconomic policy and structural reforms, which have created a conducive environment for private sector and foreign investment growth. The average annual GDP growth between 2000 and 2010 has stood at 6.7%,¹ making Tanzania one of the countries with the highest GDP growth in sub-Saharan Africa.² The real GDP growth slowed in 2011 to around 6.4%. However, real GDP grows by 6% reaching at 6.8% in June 2012.³ It is during the economic reforms period when various sectors of the economy have recorded significant positive growth. Among these sectors are the financial sector, parastatal sector, insurance sector, revenue collection and civil service sector. Over the same period, FDI has also increased substantially. Improved regulatory environment, availability of abundant unexploited natural resources, and incentives for foreign investors have also partly contributed towards increased foreign private capital flow into the country. The current major sectors of the economy include agriculture, mining, banking, manufacturing, tourism, construction, finance, insurance, real estate and business services. Despite the country's recent impressive economic performance, investment activities have mainly been concentrated in a few sectors. Compared to other sectors, mining is one of the fastest growing sectors.

The real estate sector in Tanzania is currently still underdeveloped. The institutional reforms have, however, significantly contributed to the growth of the sector. The sector is mainly dominated by pension funds, government owned institutions such as National Housing Corporation (NHC) and Tanzania Building Agency (TBA), private local investors/developers and few foreign investors/developers. The private real estate development market is dominated by private enterprises, individuals and family owned businesses. Rents and capital values have traditionally been extremely high, significantly greater than most of other sub-Saharan African cities.

¹ See BoT (2009a), p.1; BoT (2010c), p. 6; MFEA (2003), p.17.

² See IMF (2009), p. 66.

³ See BoT (2012a), p. 6.

For many years, the real estate sector has had marginal contribution to the country's GDP.⁴ For instance, between 1993 and 2006, the average contribution of the real estate sector to the GDP was only 2.3%. Despite its low share of GDP, real estate sector is regarded to have had great potential of attracting more investments following liberalisation of the financial sector, trade and exchange regime.⁵ Although the last two decades of economic reforms have witnessed a sharp increase in commercial real estate development projects (especially in large urban centres such as Dar es Salaam, Mwanza and Arusha cities), this study presupposes that the sector is not growing at a pace that is practically and economically justified. This is probably due to the fact that there are some value drivers for real estate development which are yet to be exploited to realise the full potential of the sector and to enhance its attractiveness to both local and foreign investors. This reasoning takes note of Porter's point of view which emphasises that the essence of the decision is often not the financial benefits of the alternatives but strategic issues that are hard to quantify.⁶

Accordingly, this study is set out to assess the real estate sector in the context of two theoretical models (i.e. diamond models). The first model was developed by Michael Porter, and the second model was developed by Poorvu and Cruikshank.⁷ The two models are used in this study to assess the real estate market framework and the potential driving forces for the sector growth. Porter's model is used to explore the driving forces which would spur real estate development growth in the country and to show how some aspects of the model do not work in infant real estate markets such as Tanzania. On the other hand, Poorvu's model is used to investigate the real estate framework in Tanzania. The study comes up with the proposed theoretical competitiveness model and development framework for the real estate sector in Tanzania, which could also be applicable to other countries with similar business environment.

⁴ See Kironde et al. (2003), p. 36; TanzaniaInvest (2008).

⁵ See Tanzania Investment Report (2001), p. 20.

⁶ See Weatherhead (1997), p. 40.

⁷ See Porter (1998), p. 127. Also see Poorvu/Cruikshank (1999), p. 4. Although the book is co-authored by Poorvu and Cruikshank for simplicity, this study will refer to "Poorvu model" throughout. The two models are also referred to as "Diamond Models". This study will use the term *Porter's Model* and *Poorvu's Model* throughout.

1.1.2 Research Objectives

1.1.2.1 General Objective

The general objective of this study is twofold. First, the study explores the key existing and potential driving forces which could stimulate real estate development in Tanzania which property developers should be conscious of when making property development decisions, and secondly, it investigates the framework within which real estate industry operates.

1.1.2.2 Specific Objectives

The specific objectives of the study are as follows:

- i. To investigate the slow pace of real estate development growth in Tanzania
- ii. To describe the strategies of attracting local and foreign property developers in the Tanzania property market
- iii. To assess the real estate sector in the context of the two theoretical models as have been used in other countries and their applicability to Tanzania

1.2 Research Questions

- i. What are the main driving forces for real estate development sector in Tanzania?
- ii. What is the framework for the real estate development market in Tanzania?
- iii. Why is the real estate sector not growing at a proportional pace with the growth of the Tanzania economy?
- iv. How can local entrepreneurs and foreign real estate developers get attracted into the Tanzanian real estate market?
- v. How relevant are the two models, and what are the aspects of the two models that do not work in Tanzania?

1.3 Relevance of the Study

The intended theoretical and empirical analysis contributes to the existing knowledge gap on the drivers for property development in Tanzania and in other sub-Saharan Africa countries with similar experience. This study also comes up with a modified model which is appropriate for the real estate development sector in the country. The study sheds light on the model and drivers in real estate development which are

relevant to the market setting covered. Although there is a large number of studies which provide knowledge and guidelines on the drivers for the growth of different investment sectors, generally there is a knowledge gap on the drivers for real estate development sector especially in the developing countries. It is insisted that, effective property engagements derive from consideration of the most macro to the most micro as well as many intermediate concerns.⁸ As for real estate investment, it is argued that, apart from considering risk and return, the investors should go beyond to incorporate key qualitative factors (i.e. market attractiveness and competitive advantages) so as to develop a further differentiating way of evaluating and comparing properties on a qualitative basis.⁹ The study by Bone-Winkel (1994) provides the insight on how property companies could achieve competitiveness and enhance the future value of property portfolios using qualitative indicators rather than relying on risk and return alone. Following the global recession, real estate investors are urged to take into account the dynamics of the supply side and of pricing rather than simply chasing demand-side economic growth.¹⁰ It is also emphasised that, the unquantifiable, immaterial, and subjective benefits, which decision-makers expect as an outcome of their choices, play a similarly pivotal role within decision-making.¹¹

Other authors maintain that, instead of concentrating on payback period and NPV as investment decision making criteria, the investment decision methods have also to include economic and strategic factors.¹² Furthermore, Biswas (2011)¹³ provides that, relying only on numbers as key performance indicators (KPIs), does not always provide a clear picture of performance. The author insists on modeling of the process from the customer perspectives and understanding through research and feedback at different stages and then putting the findings in metrics. The findings by Biswas (2011) concur with that of Kalafut and Low (2001)¹⁴ which show that, financial measures of performance, as retrospective measures, tell about a company's past performance; and non-financial performance reflects the health and wealth-creating potential of a company in an entirely different way.

⁸ See Roulac (2002), p. 6.

⁹ See Bone-Winkel (1994), p. 51.

¹⁰ See PREA (2010), p. 41.

¹¹ See Kinnard Jr. (2003), p. 153.

¹² See Park et al. (1990), p. 534.

¹³ See Biswas (2011), p. 55.

¹⁴ See Kalafut/Low (2001), p. 13; McAdam/Bailie (2002), p. 975.

As one of the developing countries, Tanzania has its own institutional framework, which necessitates application of different strategies in its real estate sector compared to developed countries. Theoretical framework and models which are applied in developed countries may not necessarily be applicable to Tanzania and some similar countries. It is therefore useful to understand the institutional framework and the driving forces for the sector's growth which fit the Tanzanian settings. The absence of a comprehensive theoretical model catering for Tanzania and similar settings has created a knowledge gap on how the real estate industry operates and what strategies should be applied to stimulate the growth of the sector.

Amongst the challenges facing the real estate investors and developers in Tanzania include lack of information and market transparency, and bureaucracy. Foreign real estate investors most of whom invest in commercial properties, tourist hotels, and prime residential houses face more challenges compared with local investors due to little knowledge of the local market.¹⁵ Tiwari and White (2010)¹⁶ observe that, recent years have seen a growing trend of internalisation of real estate development practice. Accordingly, apart from providing useful information to the local real estate stakeholders, this research as well informs international real estate developers and investors about the opportunities and challenges presented by the Tanzania real estate market, which may be important in devising market entry and operation strategies. Through this study, Tanzania could serve as a blueprint for the development of the real estate sector in other African countries.

Real estate investors, developers, users and professionals will also find this study a useful guide in making various decisions related to real estate development issues. The findings of this study could as well be applied, compared and contrasted with other developing countries. The study will in a similar way, be useful for other less developed countries, especially in sub-Saharan Africa, although in some cases adjustments will have to be made to accommodate minor differences of the settings of the individual countries.

¹⁵ See Kusiluka (2012), p. 10.

¹⁶ See Tiwari/White (2010), p. 82.

1.4 Research Framework

1.4.1 Theoretical Framework

The setup of theoretical framework mainly relies on the literature review of the existing models covering competitiveness of industries. Amongst the models which focus on explaining factors of enhancing sectors' performance, growth and competitiveness, Porter's Diamond Model was employed in identifying and examining competitive drivers for the Tanzania real estate sector due to the fact that the Model touches almost all core variables which comprehensively explain how to enhance the state of sector's growth and competitiveness. Unlike other Models, Porter's Model has been widely applied in a number of industries worldwide. For instance, the Model has been used to assess competitiveness of automobile, chemical, printing, pharmaceutical, chocolate ceramic tiles, electronics, software, computer, tourism, higher education, banking, insurance and processed meat industries. In addition to that, the Model has been chosen on the ground that Tanzania as a country is at present striving to promote and attract private investment in the country. Real estate has been categorised as one of the priority sectors for investment. It could thus be important for the country and the real estate entrepreneurs to align their objectives with the sources of competitiveness of the sector. Porter's Model is also used in this study to guide the designing of the proposed theoretical competitiveness model for the real estate industry in Tanzania.

On the other hand, the prospective real estate developers would be interested to understand the framework which guides property development decisions making in Tanzania. The study uses the framework developed by Poorvu and Cruikshank to discuss variables which would enable real estate entrepreneurs to succeed in the real estate business. The model also aids in the formulation of development framework for the real estate sector in Tanzania.

In order to develop an effective business strategy, characteristics of the industry and of the competitive environment that the nation faces now and in the future, and positioning the nation within that competitive environment need to be analysed.¹⁷ This study employs and modifies Porter's model to fit the real estate development context.

¹⁷ See Porter (1998), p. 34.

Generally, Porter's model describes the competitive position of a nation, industry or firm centering around four key elements namely demand conditions, factor conditions, firm strategy, structure and rivalry, and related and supporting industries.¹⁸ In understanding the real estate framework, the study also employs Poorvu's model.¹⁹ Just as Porter's model, Poorvu's model also describes the framework of winning real estate business by concentrating on four attributes namely external environment, capital market, players and properties. Thus, the two models are used to describe the real estate development framework and demonstrate how market players could capitalise on various driving attributes for property development in the course of stimulating the sector and increasing its attractiveness.

Although real estate is one of the major components of business, strategic thinkers such as Porter (1990), Collis and Montgomery (1995)²⁰ have given little thought to it.²¹ Compared with the competitiveness of enterprises, the competitiveness of the real estate industry is more macroscopic.²² Extending Porter's ideas to real estate is a helpful way of bridging the different worlds of real estate and corporate planning.²³ This study therefore applies the competitive strategies and strategic management concepts to the real estate business activity. For the purpose of this study, the two models are applied for two purposes. In understanding the real estate industry framework in its totality, Poorvu's model is employed. The model provides insights on the interactions in the real estate industry and the rules that shape the real estate game. To identify potential opportunities provided by the real estate industry in Tanzania, Porter's model is employed. The model is also used to show how those opportunities could be effectively exploited to stimulate growth and to attract foreign investors in the real estate sector. Porter's model is only used as a tool for analysing drivers for the growth

¹⁸ See Porter (1998), p. 127; the model focuses on four broad attributes of a nation i.e. demand conditions, factor conditions, firm strategy, structure and rivalry, and related and supporting industries. They are attributes that individually and as a system constitute the diamond of national advantage. Porter refers the four elements as 'diamond of competitive advantage'.

¹⁹ See Poorvu/Cruikshank (1999), p. 4; the model concentrates on four dynamic forces i.e. external environment, capital market, players and properties. These are the attributes that should be taken into account when making real estate decisions. The authors present the four variables in the form of a diamond which they call 'the game diamond', see it on p. 3.

²⁰ Porter (1990); focuses on the competition within industries while Collis/Montgomery (1995), focuses on reviewing resources and capabilities and using them to gain advantage in the competitive environment.

²¹ See Weatherhead (1997), p. 31 and p. 39.

²² See Sun et al. (2010), p. 241.

²³ See Weatherhead (1997), p. 39.

of Tanzania's real estate industry. Additionally, the two theoretical models are as well used to explain the extent to which the institutional and business environment can enhance market entrance of international real estate investors and developers in the country.

1.4.2 Geographical Framework

Tanzania Mainland is divided into 25 regions (see Figure 14). The capital of Tanzania is Dodoma. Before 1974 Dar es Salaam was the capital city. Although Dar es Salaam lost its official status as capital city to Dodoma, it remains the largest city and a home to many government ministries and offices. Dodoma is mainly used for parliamentary sessions. The approximate population of Dar es Salaam city is above 3 million (7.2% of the total population).²⁴ Dar es Salaam has the annual growth rate of 4.3%, and it generates over 70% of the Tanzania's GDP.²⁵ The population distribution shows that, Dar es Salaam city has the highest population density with 2,238 people per square kilometer. Dar es Salaam is Tanzania's main engine of economic growth and serves as an administrative, industrial and commercial centre. The city accommodates about 40% of the total industrial manufacturing units in the country and contributes about 45% of Tanzania's gross industrial manufacturing output.²⁶ It is the major seaport for the country and its landlocked neighbours.

Most of the substantial real estate development and investment projects are concentrated in Dar es Salaam city. Dar es Salaam is the economic capital and, like many rapidly developing African cities, is undergoing great change in all its property sectors. This is in terms of location, design, availability and pricing. Rents and capital values have traditionally been extremely high, significantly greater than either Nairobi or Kampala and other East African capital cities.²⁷ As such the available real estate investment records for Tanzania, are those of properties in Dar es Salaam. So far, no known large foreign real estate investors have located their investments in cities other than Dar es Salaam except for hotel development in the tourist regions of Mainland Tanzania such as Arusha, Manyara, Mara and Kilimanjaro. It is thus assumed in this

²⁴ See MFEA (2011), p. 104 and p. 106.

²⁵ See UN-HABITAT (2009), p. 6 and p. 11.

²⁶ See UN-HABITAT (2009), p. 10.

²⁷ For detailed overview of monthly rent and yield in Dar es Salaam and other major cities refer to Table 13 of this work.

study that large foreign developers/investors would not be prepared to invest in submarkets away from Dar es Salaam at least in the short-run.

1.5 Defining Value Drivers and Framework

Literature shows that, there are different definitions of value drivers depending on the purpose, discipline or the industry in question. The literature also shows that, the term driver is used interchangeably to driving forces. The definitions take into account the economic, social, or environment context. Value drivers could be monetary or non-monetary. The subsection below discusses the definition of drivers/value drivers as provided for by different authors in different contexts:

Defining the value drivers in the automotive industry, Gelei (2004)²⁸ provides that, value drivers are things that are important to customers adding significant value to them; value drivers are building blocks of the complex term value. The author also notes that, literature uses the term *sources of competitiveness* synonymous to value drivers and usually lists those elements (i.e. price, quality conformance, flexibility, reliability and connected services) that are important value drivers. The author adds that, other authors use the term value dimensions to mean value drivers.

Anderson and Amrik (1999)²⁹ define value in business markets as the worth in monetary terms of the economic, technical, service and social benefits a customer firm receives in exchange for the price it pays for a market offering. Even if monetary terms are used to express value because of managerial practice of utility understanding, a broader approach of value is rooted from the social exchange theory.³⁰ Mandjak and Durrieu (2000)³¹ came up with a framework which distinguishes several types of value drivers at three different levels namely *Episode*, *relationship* and *network*. At *Episode level*; value is the result (static) of the exchange that receives the customer and are mainly driven economically and expressed in monetary terms. At *Relationship level*; value seems to be a process of creation (dynamic) where the value drivers are mainly non-economic. At *Network level*; the value seems to be a process of sharing (spatial) where the value drivers are non-economic.

²⁸ See Walters (2002) as quoted from Gelei (2004), p. 44-45.

²⁹ See Anderson/Amrik (1999), p. 5.

³⁰ See Mandjak/Durrieu (2000), p. 2.

³¹ See Mandjak/Durrieu (2000), p. 7-8.

Chaneta (2008)³² provides that, all industries are characterised by trends and new developments that, either gradually or speedily, produce changes important enough to require a strategic response from participating firms. Although it is important to judge what growth stage an industry is in, there is more analytical value in identifying the specific factors causing fundamental industry and competitive adjustments. Industry's conditions change because forces that create incentives or pressures for change are in motion. The most dominant forces are called *driving forces* because they have the biggest influences on kinds of change that will take place in the industry's structure and environment. Some driving forces originate in the macro-environment and others originate from within a company's immediate industry and competitive environment. Driving forces analysis has two steps:

- (i) Identifying what the driving forces are and;
- (ii) Assessing the impact they will have on the industry

The author lists the most common driving forces influencing changes which include; change in the long-term industry growth rate, change in who buys the product and how they use it, product innovation, technological change, entry or exit of major firms, regulatory influences and government policy changes, changing societal concerns, attitudes and lifestyles, and reduction in uncertainty and business risk. Furthermore, the author stresses that, one of the ways of predicting future driving forces is the utilisation of the environmental scanning technique. The technique is highly qualitative and involves studying and interpreting social, political, economic, ecological and technological events in an effort to spot budding trends and conditions that could eventually affect the industry.

Schaefers and Schulte (2012)³³ list a number of value drivers of Real Estate Operating Companies (REOC) and REITs which include; management quality and track record, orientation of the business model, exploitation of market cycles, value creation in the portfolio, projected development, growth fantasy, size, liquidity and capital structure, and transparency and corporate governance. The list provided by the authors clearly shows that, value drivers for the REOC and REITs include both qualitative and

³² See Chaneta (2008), p. 40-42.

³³ See Schaefers/Schulte (2012), p. 342-346.

quantitative elements. Gelei (2004)³⁴ identifies the concrete value drivers that are relevant for Hungarian automotive suppliers. The author defines and discusses the value drivers in different categories as it can be seen in Table 1.

Table 1: Definition of Value Drivers

Level of value driver	Character of value driver	Group of value driver	Concrete value driver
Transaction	Direct	Efficiency	Price
			Quality
			Reliable service level
			Volume function
			Safeguarding function
Partnership	Indirect	Effectiveness	Connected services
			Flexibility
			Incremental innovation function
Network	Indirect		Strategic innovation
			Scout function
			Resource-access function

Source: Gelei (2004), p. 47.

The Analytic Hierarchy Process (AHP) was used by Lin and Tang (2009)³⁵ to sort out the non-financial value drivers for intangible assets (i.e. innovation and technology, management capability, employee capability, customer relationship, and goodwill) which help businesses to correctly appraise corporate value ratios and avoid bias due to mainly relying on financial statements when measuring an entity's value. In addition to that, Kalafut and Low (2001)³⁶ present an example of a possible list of nine most critical non-financial drivers of value, which include innovation, quality, customer relations, management capabilities, alliances, technology, brand value, employee relations, and environmental and community issues.

Sen (2006)³⁷ defines drivers as the prime mover of initiatives that add momentum to overcome the inertia. The author adds further that, improved competitiveness could be derived from societal, environmental and stakeholder drivers. Societal, environmental and stakeholder drivers stimulate innovation in a variety of ways. The author presents a model of societal, environmental and stakeholder drivers which affect performance of

³⁴ See Gelei (2004), p. 47.

³⁵ See Lin/Tang (2009), p. 680 and p. 686.

³⁶ See Kalafut/Low (2001), p. 10.

³⁷ See Sen (2006), p. 26.

a firm and in turn acts as a driver for competitiveness of the firms.³⁸ On the other hand, Stough et al. (2011)³⁹ argue that, the shift from regional comparative advantage to regional competitive advantage leads to a *new growth theory* which drives the regional development and growth. The authors mentioned among others, technology, economic, value and cultural factors, and the role of leadership and institutions as drivers for development and growth which give a city or region its competitive edge.

Triple bottom line (TBL) theoretical framework was used by Ang and Wilkinson (2008)⁴⁰ to analyse drivers (i.e. social, economic and environmental) of property development sustainability in Melbourne. The authors find out that, social reasons are considered more than economic arguments for incorporating sustainability into property developments. Mistra-The Foundation for Strategic Environmental Research (2008)⁴¹ notes that, value drivers, including regulatory frameworks and incentives, cost reductions and tenant demand, lead to rewarding investment opportunities for real estate investors to adopt sustainable real estate practices.

Despite having few studies on the drivers of real estate investment, it is worth noting that, there has been considerable research on drivers of sustainability within real estate. Authors (for instance, Schleich (2012); Du Plessis (2002); Ang and Wilkinson (2008); Myers et al. (2008); Newell (2008); Augenbroe et al. (1998))⁴² discuss different drivers of sustainability in different perspectives.

As already demonstrated above, there is a number of studies on drivers for the firm's investment. However, there exist none or few studies on the drivers for the real property development especially in the infant real estate market environments such as Tanzania. This study uses the case of Tanzania to fill the knowledge gap by identifying and analysing the drivers relevant for real estate development in less developed countries. The drivers discussed in this study are not exhaustive but intend to provide guidelines on the specific needs of less developed countries in promoting their real estate growth. Basing on what is provided in the literature; value drivers in this study

³⁸ See Sen (2006), p. 21 and p. 25.

³⁹ See Stough et al. (2011), p. 7-9.

⁴⁰ See Ang/Wilkinson (2008), p. 331 et seq.

⁴¹ See Mistra-The Foundation for Strategic Environmental Research (2008), p. 2.

⁴² See Schleich (2012), p. 31; Du Plessis (2002), p. 54; Ang/Wilkinson (2008), p. 331 et seq.; Myers et al. (2008), p. 2-3; Newell (2008), p. 523 and p. 527; Augenbroe et al. (1998), p. 19 et seqq.

refer to the *motivators* or *catalysts* that help push forward the operations of the real estate industry with the intention of enhancing the sector's growth. The value drivers considered by this study are qualitative (i.e. non-monetary) aspects which could contribute to the growth of real estate sector in Tanzania.

The real estate framework in this study is discussed in terms of the general environment within which real estate activities take place (i.e. organisational and institutional structures). It entails property market in terms of a broad generalisation about the behaviour of actors, developers, investors, and landowners. Land laws, and the institutions (i.e. legal, financial, political, fiscal, etc) are given due consideration in the framework. It also looks into the complexity of the relationships involved in the property development process.

1.6 Methodology

Understanding a particular industry, requires studying the environment in which it exists and the specific factors which determine the behaviour and the success of the industry in question. This necessitates studying the structure of the industry which shapes the rules of the game for the industries involved.⁴³ According to Roulac (2002),⁴⁴ the effectiveness in the property sector requires an understanding of the environment of the business, its institutional relationships, the technical tools necessary to perform fundamental tasks, and the personal style and attributes necessary for effective performance. Accordingly, the first part of this study focuses on understanding the real estate industry in its totality so as to get its comprehensive picture. Thereafter, the study embarks on exploring the driving forces for the real estate development in the country. The nature of this study and the diversity of possible courses of action necessitate adoption of an interdisciplinary approach. As described earlier, this study uses Porter's and Poorvu's models to investigate the real estate framework and opportunities for the growth of the real estate sector in Tanzania.

Richards and Morse (2007) ⁴⁵ argue that, no one method is intrinsically superior to others; each method serves a different purpose. Methodologists routinely urge

⁴³ See Bone-Winkel (1994), p. 46.

⁴⁴ See Roulac (2002), p. 13.

⁴⁵ Richards/Morse (2007), p. 6.

researchers to access the fit between purpose and method (Maxwell, 2005; Richard and Morse, 2007)⁴⁶ with the choice to use a qualitative approach being determined by the research question and purpose, rather than prior preference of the researcher.⁴⁷ Qualitative methods will be chosen in situations where a detailed understanding of a process or experience is wanted, where more information is needed to determine the exact nature of the issue being investigated, or where the only information available is in non-numeric form.⁴⁸ In order to cover the contextual condition of the setting being studied, a case study methodology is used. A case study is an empirical inquiry that investigates contemporary phenomena/problem in depth and within its real-life context.⁴⁹ The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result.⁵⁰ The types of questions which this study tries to answer necessitate the use of a case study approach.

The study entails an investigation of property development activities of both local and foreign real estate developers in Tanzania. A number of real estate development projects from the local and foreign real estate developers are analysed basing on the units of analysis. Local and foreign real estate developers have been used to illustrate the setting in which the real estate development industry operates in Tanzania. The use of multiple case studies is necessary in order to get a deeper understanding of the real estate development practices. The cases were selected based on the fact that both cases are rich in information for the present study. Due to the small size of the real estate sector in Tanzania, the study does not limit itself to a particular property use, rather the cases cover various property uses i.e. commercial, residential and retail. In order to provide a clear analysis of the internal and external environment within which real estate activities operate, this study gathered information from the financial institutions, real estate professionals, land officers, official from TIC, TMRC, and TBS. The inclusion of these interviewees aimed at getting information on real estate development processes, real estate financing, real estate investment facilitation, and building construction materials quality control. Given the objectives of the current

⁴⁶ See Maxwell (2005), p.5; Richards/Morse (2007), p. 2 et seqq.

⁴⁷ See Bazeley (2007), p. 2.

⁴⁸ See Bazeley (2007), p. 2.

⁴⁹ See Yin (2009), p. 18; Scholz/Tietje (2002), p. 9.

⁵⁰ See Yin (2009), p. 17.

research, two groups of units of analysis were used to answer the research questions. The first group consisted of the local and foreign real estate developers, TIC, TMRC, TBS, land administrators, financial institutions, and real estate professionals. The second group consisted of real estate industry.

A case study might be selected for its very uniqueness, for what it can reveal about a phenomenon, knowledge one would not otherwise have access to.⁵¹ The holistic multiple-case design⁵² was employed. Multiple case designs are considered to be more compelling and the overall study is therefore regarded as being more robust.⁵³ This research relies on in-depth interviews as a primary data collection method. Interview is regarded as the most important source of case study information.⁵⁴ Interview is expected to collect information which would otherwise not be possible to be obtained by using a questionnaire.

In-depth semi-structured interviews were used as the main data collection method due to the fact that the research questions which the present study tried to answer required detailed understanding of the real estate development environment. Interviews also allowed the interviewees to back up their individual opinions and assessment of the sector with details and examples, which resulted into collection of data which is rich in core issues surrounding real estate development and investment activities which would probably not have been captured using a questionnaire. Respondents were selected based on their in-depth knowledge of the environment within which real estate activities operate. All interviewees were engaged in one way or another in land and real estate matters. The interviews were selected amongst individuals and representatives of institutions dealing with land and real estate activities. Initially, the study intended to interview 50 individuals but only 47 interviews were conducted i.e. 94% response rate. Another advantage of interview method is the high response rate.

Semi-structured interviews were conducted to 47 respondents, grouped into eight categories namely local and foreign real estate developers, officials from Tanzania Investment Centre (TIC), TMRC, TBS, land officers, officials from various financial

⁵¹ See Merriam (1998), p. 33.

⁵² See Yin (2009), p. 59.

⁵³ See Yin (2009), p. 53.

⁵⁴ See Yin (2009), p. 106.

institutions and real estate professionals. An interview guide was used to guide the researcher to ask similar questions to the same category of interviewees (refer to Appendix 2). This also in turn ensured reliability. Therefore, the study had eight sets of interview guides with questions on specific issues for each category. Questions in the interview guide for foreign and local developers were meant to capture information on the general environment within which real estate activities operates. Interview guide to the real estate professionals aimed at gathering information on the growth of the sector, drivers and barriers in the sector, competitiveness strategies, and the professionals' involvement in property development. Interview guide for land officers was meant to gather information on the real estate development process and procedures. Interview guide for a TIC official intended to collect information on real estate investors facilitation and incentives in the country. Interview guide for financial institutions aimed at collecting information of the real estate financing. TMRC official provided information on the real estate mortgage refinancing, while TBS official provided information on building construction materials quality control.

All interviews were documented. In the course of addressing research objectives, editing, rephrasing, and condensing of the statements were done. Also to ensure that the correct statement was captured from the interviewees, the researcher sent back the written interviews to respondents so as to verify their statements. In the course of maintaining anonymity, the names of the interviewees have not been mentioned in this report. Instead each interviewee was assigned a number which shows the category to which he/she belongs. On reporting the results of the two cases, there is no separate chapter or sections devoted to the individual case (i.e. local or foreign real estate developers), rather the entire thesis consists of *cross-case analysis*.⁵⁵ The analysis of the qualitative data typically follows the path of aggregating words or images into categories of information and presenting the diversity of ideas gathered during data collection.⁵⁶ Unlike quantitative studies, qualitative studies normally do not test hypotheses. The main purpose of a qualitative research is to derive a theory from data analysis in order to formulate hypotheses.⁵⁷ The research problem is addressed by

⁵⁵ Reference is drawn from Yin (2009), p. 172.

⁵⁶ See Creswell/Clark (2007), p. 6.

⁵⁷ See Richards/Richards (2002), p. 149 and p. 170; also see Schleich (2012), p. 5-6.

testing the validity of the conclusions or inferences.⁵⁸ In developing hypotheses, this study follows inductive research process (i.e. starts with empirical data and proceed to draw generally applicable conclusions from it. In the course of data collection and analysis, this study generated three hypotheses.

A qualitative data analysis software package namely NVivo was used for data analysis. NVivo was developed by QRS International to provide a set of tools to assist researchers in analysing qualitative data. The software has been designed for researchers with rich text data requiring fine-detail methods of analysis.⁵⁹ NVivo was used to guide the author of the present study to organise, code and manage data and ideas, to query data, to show cases, ideas and concepts obtained from the data and the relationship between them, and to present those ideas in visual display.

There are different views amongst authors on the benefit of using Computer Assisted Qualitative Data Analysis (CAQDAS). While Bazeley (2007)⁶⁰ argues that the use of such software ensures that the researcher is working more methodically, more thoroughly and more attentively i.e. it contributes to a more rigorous analysis. Others (e.g. Morison and Moir, 1998; Lofland and Lofland, 1994; Atherton and Elsmore, 2007; Baugh 2010)⁶¹ are of the opinion that, CAQDAS serves to facilitate an accurate and transparent data analysis process whilst also providing a quick and simple way of counting who said what and when, also, it increases rigour in analysis and in turn, provides a reliable and analytical sense of the data, and supports credible conclusions drawn from the data. On the other hand, Hwang (2008)⁶² mentions the transparency and reliability of the data analysis processes, which may enhance the credibility of the research processes. CAQDAS supports a better understanding of complex and subjective variables drawn from open-ended questionnaires, interviews, internet surveys, and other means of qualitative data collection.⁶³

⁵⁸ See Rothchild (2006), p. 3.

⁵⁹ See Morse/Richard (2002), p. 220.

⁶⁰ See Bazeley (2007), p. 3.

⁶¹ See Morison/Moir (1998), p. 109; Lofland/Lofland, (1994), p. 122; Atherton/Elsmore (2007), p. 65-69; Baugh et al. (2010), p. 77.

⁶² See Hwang (2008), p. 524-525.

⁶³ See Baugh et al. (2010), p. 79.

1.7 Justification for Interdisciplinary Approach

Little has been applied from mainstream economics tradition to the property world.⁶⁴ An understanding of the operation of the property market will require an understanding of both neoclassical and institutional economics.⁶⁵ The built environment is shaped by different professional actors in the light of their particular way of seeing buildings and cities and of their subsequent goals and actions.⁶⁶ Property in general and property development in particular have drawn heavily on research approaches of various disciplines.⁶⁷ Methodologies, theories, methods and techniques from economics, geography, planning, sociology and politics have been utilised by property researchers.⁶⁸

The contemporary orientation of the property discipline is reflected in the different paradigms employed for considering property, including economics, finance, geography, engineering, highest and best use, city planning, brokerage, legal corporate decisions, the consumer transaction, and a multi-disciplinary approach.⁶⁹ For instance, Schulte and Schaefers (2008)⁷⁰ illuminate the interdisciplinary aspects in the real estate field which, apart from business administration, requires other disciplines such as economics, law, spatial planning, architecture, and engineering. Figure 1 highlights the interdisciplinarity nature of the real estate as a discipline. The present study touches on a number of aspects which are considered in the "House of Real Estate". On the management aspect, the study concentrates on the real estate development. The study touches almost all aspects of institutional and typological aspects. In addition to that, interdisciplinarity of the present study is based on its application of the economic model to describe the real estate discipline. On the other hand, Grissom and Liu (1994)⁷¹, describe the interdisciplinarity of real estate economics which include general economics, institutional economics, and neo-

⁶⁴ See Ball (1998), p. 1506.

⁶⁵ See Tiwari/White (2010), p. 58.

⁶⁶ See Guy/Henneberry (2000), p. 2400; Chynoweth (2009), p. 307.

⁶⁷ See Guy/Henneberry (2002a), p. 8; Rothenberger (2010), p. 30.

⁶⁸ See Guy/Henneberry (2002a), p. 8.

⁶⁹ See Roulac (2002), p. 11.

⁷⁰ See Schulte/Schaefers (2008), p. 58, 'Haus der Immobilienökonomie'. The diagram illustrates the House of Real Estate Economics.

⁷¹ See Grissom/Liu (1994), p. 68.

classical economics. In order to cope with an ever-changing environment, real estate requires a rich array of research methodologies and paradigms.⁷²

Various models, most of which are derived from different theoretical frameworks of neo-classical economics, land economics, Marxist economics, urban-political economy and institutional analysis have been identified.⁷³ Most of those models show the relationship between the property development process and social and economic development. The economic modeling of the land development process such as structure-agency models, institutional power models, structure of building provision models, event sequence model, equilibrium and agency model have been produced.⁷⁴ Some scholars have provided reviews of those land development models⁷⁵ to provide understanding, clarity, applicability and theoretical underpinnings.

However, the literature on different approaches to real estate studies evidences lively competition over approaches, theories and methods in the real estate field over the last decade.⁷⁶ While some authors argue in favour of mainstreaming economics paradigm and economic models in the analysis of property market and development industry,⁷⁷ others reject such approaches.⁷⁸ This study is in favour of those who see the importance of mainstreaming economic and social models to real estate, hence the use of Porter's and Poorvu's models to study real estate development in Tanzania. The models expect to provide guideline on achieving real estate sector's competitiveness and growth.

⁷² See Clapp et al. (1994), p. 118.

⁷³ See Ismail Bt. (1996a), p. 11; Healey (1991a), p. 102; Healey/Barrett (1990), p. 92; Ball (1986), p. 448.

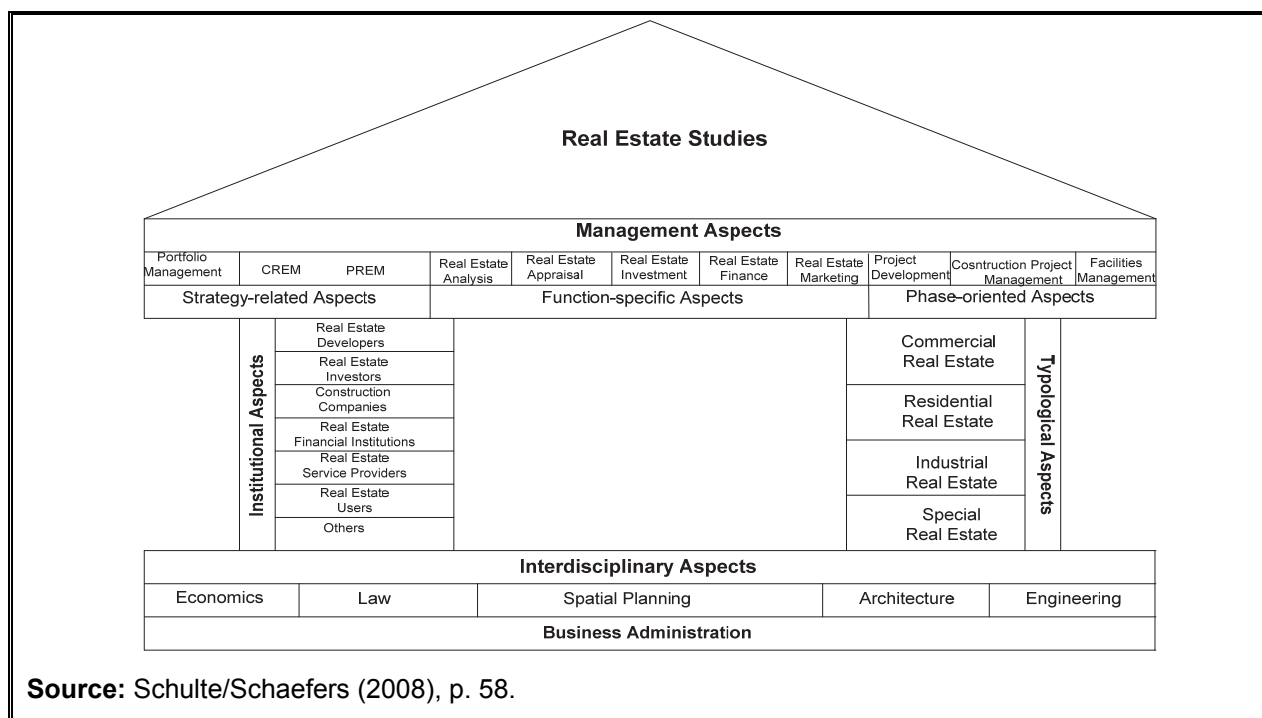
⁷⁴ See Diaz III (1999), p. 327; Ismail Bt. (1996b), p. 216; Gore/Nicholson (1991), p. 706; Healey (1991b), p. 221.

⁷⁵ See Healey (1991a), p. 102-107; Healey (1991b), p. 221-236; Gore/Nicholson (1991), p. 706; Ball (1986), p. 451; Ball et al. (1998), p. 107-109; Healey/Barrett (1990), p. 91-94; Ismail Bt. (1996a), p. 13; Ismail Bt. (1996b), p. 198; and also see Guy/Henneberry (2002b), p. 1472.

⁷⁶ See Guy/Henneberry (2002a), p. 10; Henneberry/Rowley (2002), p. 99; Guy (1994), p. 34; Antwi/Henneberry (1995), p. 217.

⁷⁷ See Guy/Henneberry (2002a), p. 13; Guy/Henneberry (2000), p. 2411; Lizieri (1995), p. 166; Healey/Barrett (1990), p. 90; Gore/Nicholson (1991), p. 728.

⁷⁸ See Healey (1991a), p. 103-108; Harris/Cundell (1995), p. 76; Luithlen (1993), p. 41-42; Luithlen (1992), p. 235; Ball et al. (1998), p. 126-128; Tiwari/White (2010), p. 59-60.

Figure 1: “House of Real Estate”

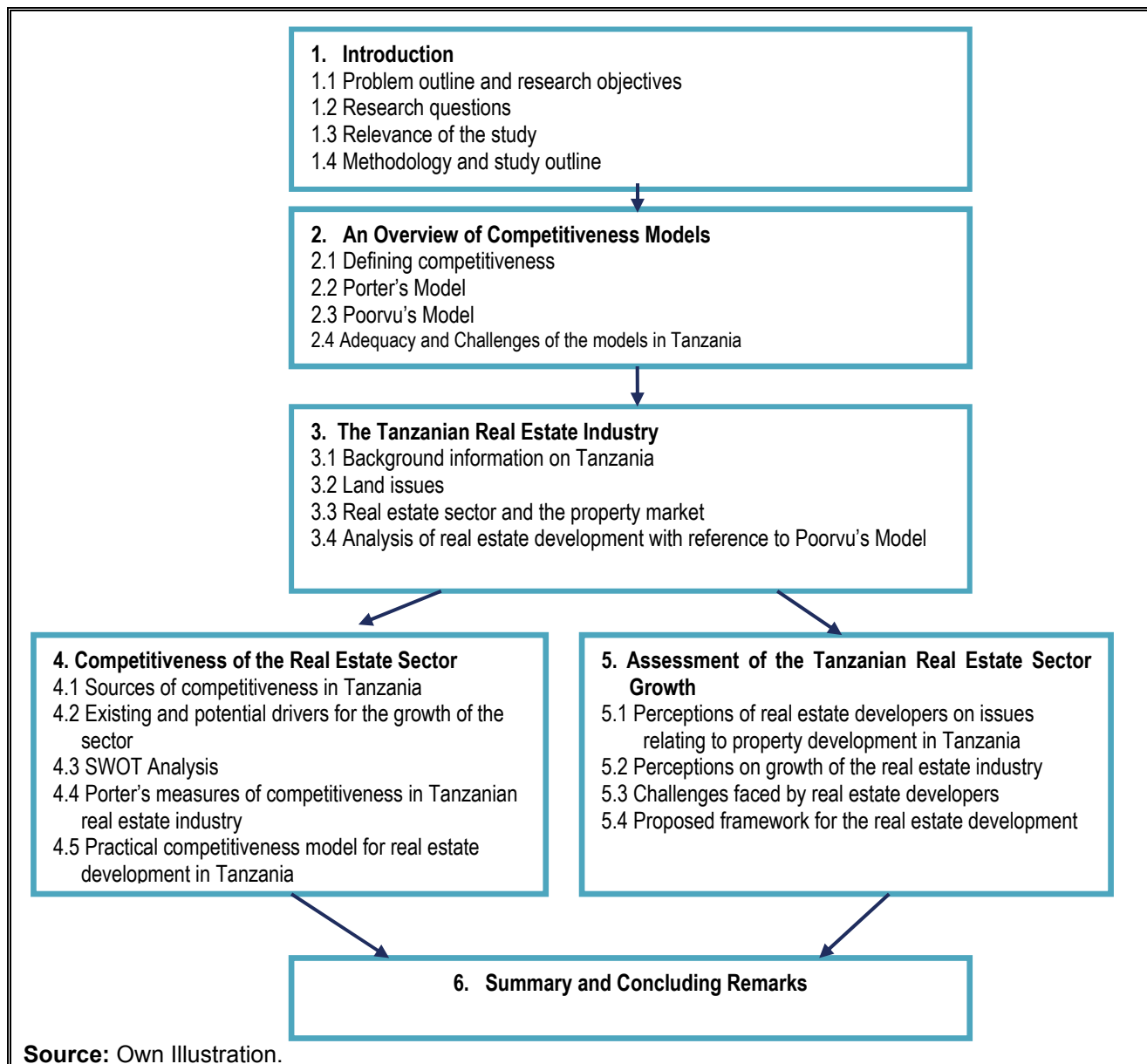
1.8 Study Outline

This study is presented in six chapters (refer to Figure 2). Chapter One provides a general introduction to the study. It covers the background to the study, problem outline, objectives of the study, research questions, and the relevance of the study. The chapter also presents the theoretical framework of the study and the research methodology. The chapter further provides justification for the use of case study research and interdisciplinary approach in this study. An overview of the various competitiveness models and Porter's and Poorvu's models are presented in Chapter Two. A critical review of the conceptual and empirical literature on the use of the two models is also presented in this chapter. The Tanzania real estate industry is presented in Chapter Three. The chapter provides a broad picture of the environment within which real estate development operates. Issues pertaining to land rights and ownership, economic environment, institutions, and the external environment which have impact on the real estate development are presented.

Data analysis, findings and discussions are presented in Chapter Four and Five. Chapter Four looks at the competitiveness of the real estate sector. The chapter provides detailed information on the sources of competitiveness in Tanzania. Discussion on the existing and potential drivers for the growth of the sector is

presented in this chapter. Analysis of the strengths, weaknesses, opportunities and threats (SWOT) in the real estate development market is also presented in this chapter. Also the chapter uses Porter's measures of competitiveness to gauge the Tanzanian real estate industry competitiveness. Chapter Five discusses the perceptions of the real estate developers on the extent of the sector's growth and on what could be done to enhance justified growth and creating competitive real estate development environment in the country. The proposed framework for the real estate development is also presented in this chapter. The last Chapter presents the summary and concluding remarks.

Figure 2: Study Outline



2 An Overview of Competitiveness Models

2.1 Introduction

This chapter provides an overview of the theoretical background, and empirical application of Porter's and Poorvu's models. Theoretically, the models could have a wide application in different countries with different market settings; however the empirical application depends on the market setting of each individual country. The interest of this study is on the aspects of the models which could be applicable to the setting obtaining in Tanzania. In assessing the real estate sector in Tanzania, the aspects of the models which do not fit the country's environment are also discussed. Challenges of implementing the models proposed by Porter and Poorvu are also discussed in this chapter.

2.2 Discussion on the Models

Many strands of literature on the competitiveness of nations or industries have largely concentrated on examining firms operating in certain industries such as manufacturing and retailing. Competitiveness in the real estate investment and development sectors has not received much research attention. In addition to that, many of the existing models have been developed for application in different environments and settings of the developed countries. As a result, there is absence of an effective model which can help understand properly the competitiveness of business organisations such as real estate in different market environments especially in many developing countries like Tanzania.

Understanding the source of competitiveness within the real estate industry, will enable developers and investors to adopt appropriate actions and strategies to utilise organisation resources more effectively in the course of improving growth and performance in the market. It will also provide understanding of weaknesses in the sector and thus relevant actions can be taken for improving their competitiveness position. Since the release of Porter's study on competitiveness; competitiveness strategies, framework and models have been widely examined or developed for different sectors of the economy.

While methods have already been developed for assessing the competitiveness of firms in different industries, this is not the case for the real estate development industry.⁷⁹ Generally, real estate field lacks research that develops theoretical models of the relationship between corporate strategic management systems and real estate decisions and operations. The field also lacks empirical testing using well-defined models to quantify the value that real estate adds to the firm.⁸⁰

With regard to the real estate industry competitiveness, the pioneer of the business competitiveness model, Porter (1989)⁸¹ puts emphasis on stakeholders to analyse the historical nature of real estate industry and how it has been changing. According to the author, the real estate industry is fragmented and it has changed since 1980s surrounded by low entry barrier which results into a lot of new competition. In Porter's view, instead of the actors in the real estate being opportunistic, there must be new strategies to deal with forces so as to give real estate companies a real sustained advantage in the market place. The author suggests two factors affecting real estate business competitive advantage as lower costs and differentiation. He opines that, the real estate company with low cost strategy can save costs across many processes, including finance, design and delivering of a project. The development with lower costs allows developers to identify opportunities of getting a higher margin at prevailing sale price. On the other hand, differentiation strategy helps an organisation to develop the ability of having some unique skills or resources that allow an organisation to command a premium price.

Contributing to the discussion on competitiveness in the real estate industry, different strands of literature provide insight into the aspect of competitiveness in the real estate industry. For instance, the study by Zhang et al. (2011)⁸² notes that, research into the assessment of real estate developers' competitiveness has been limited to the Chinese real estate industry. The authors came out with a fuzzy competitiveness rating (FCR) method for measuring competitiveness of the real estate developers in China.

⁷⁹ See Li (2011), p. 46.

⁸⁰ See Lindholm et al. (2006), p. 445.

⁸¹ See Porter (1989), p. 1-9; Remark to the 1989 Harvard Business School Real Estate Symposium.

⁸² See Zhang et al. (2011), p. 10; Sun et al. (2010), p. 241. These authors have the same argument that, analysis of the competitiveness of the real estate industry is limited.

Another study by Zhang et al. (2009)⁸³ also reports on the applicability of various established competitiveness assessment methods in the Chinese real estate firms. According to the authors, the proper analysis on competitiveness will yield valuable information to the Chinese real estate market to make decisions of identifying competition strategy and applying adequate methods to improve their competitiveness where necessary.

A study on real estate competitiveness also carried out in China introduces methods for the real estate development companies to evaluate their competitiveness.⁸⁴ The authors suggest that, the real estate developer's unique financial competence, market coverage and management competencies are vital to the industry's competitiveness. Other two recent studies by Zhang et al. (2010) provide a list of competitiveness indicators for the real estate developers. While Zhang et al. (2010a)⁸⁵ come up with a number of core indicators which affect the competitiveness of the real estate developers such as good corporate brand awareness and sufficient resources for expansion, access to a diverse range of capital, appropriate annual land reserve, excellent entrepreneurship, proper risk assessment and response capacity, and green development strategy; Zhang et al. (2010b)⁸⁶ come up with a number of key competitiveness indicators which help new real estate developers to achieve competitiveness during their inception stage in which the organisations start their business. Zhang et al. (2010b) mention capital operation capability, entrepreneurship, land reserve capability, high sales revenue from the first real estate development project, and innovation capability as the key competitiveness indicators for new real estate developers. Some other authors (for instance, Wei et al. 2007)⁸⁷ come up with core competence indicators for the real estate industry while integrating the strategic resources which include; land resources, capital scale and market management.

Of recent, various strands of literature (for instance, Heywood and Kenley (2008); Lindholm et al. (2006); Singer et al. (2007))⁸⁸ focus on the corporate real estate competitiveness. Other authors (for instance, Tan et al. (2007); Shen et al. (2006);

⁸³ See Zhang et al. (2009), p. 229-230.

⁸⁴ See Li et al. (2009), p. 568.

⁸⁵ See Zhang et al. (2010a), p. 526.

⁸⁶ See Zhang et al. (2010b), p. 143.

⁸⁷ See Wei et al. (2007), p. 117.

⁸⁸ See Heywood/Kenley (2008a), p. 85; Lindholm et al. (2006), p. 445; Singer et al. (2007), p. 25.

Ratnaningsih et al. (2010))⁸⁹ focus on explaining competitiveness of the contractors in the construction industry. Among few authors who have focused on competitiveness in the real estate construction industry, Flanagan et al. (2007); Flanagan (2005); Flanagan et al. (2004); and Henricsson et al. (2004)⁹⁰ have studied the competitiveness of the construction industry from different perspectives. Some other authors (for example, Hinton and Tao (2006))⁹¹ have looked at the key sources of competitive advantages gained from e-business applications made by Chinese real estate developers, some of which include e-procurement, automation of the internal management process and marketing efficiency. Other authors such as D'Arcy and Roulac (2002)⁹² provide determinants of competitive advantage (which include human resources, market knowledge and corporate culture) in real estate services (RES). D'Arcy and Keogh (1999)⁹³ also observe that, the property market (i.e. institutional arrangements through which real property is used, traded and developed) influence urban competitiveness directly through the provision of suitable accommodation for economic activity and indirectly through its cumulative contribution to the built environment.

After a comprehensive literature review, Zhang et al. (2009); Zhang et al. (2010a); Zhang et al. (2010b); Zhang et al. (2011) come up with a series of subsequent papers which provided a list of 42 competitive indicators (i.e. indicators approach) for real estate developers. These competitive indicators which have been adopted from previous studies are broadly classified into three themes namely; resource-based, management mechanisms, and core competence and capability indicators. The list of indicators is as shown in Table 2.

⁸⁹ See Tan et al. (2007), p. 35-37; Shen et al. (2006), p. 416. The authors present a list of competitiveness indicators for measuring contractor competitiveness in Chinese construction industry. On the other side, Ratnaningsih et al. (2010), p. 51 analyse internal and external factors in a company that influence competitive advantage of national contractor in Indonesia.

⁹⁰ See Flanagan et al. (2007), p. 989; Flanagan (2005), p. 4; Flanagan et al. (2004), p. 1; Henricsson et al. (2004), p. 335.

⁹¹ See Hinton/Tao (2006), p. 93 and p. 100.

⁹² See D'Arcy/Roulac (2002), p. 11-12.

⁹³ See D'Arcy/Keogh (1997) as quoted from D'Arcy/Keogh (1999), p. 917.

Table 2: Competitive Indicators for Real Estate Developers

Group	Indicator	Code
Resources (R)	Corporate brand awareness	X ₁
	Annual land reserves	X ₂
	Access to a diverse range of capital	X ₃
	Availability of consumer community resources	X ₄
	Availability of rich human resources; effective staff promotion	X ₅
	Availability of extensive real estate policy information; many information channels	X ₆
	Favoring support from planning department	X ₇
	Relationship with government	X ₈
	Sound organisational culture	X ₉
	Knowledge of market information channels and relevant market strategy	X ₁₀
	Expert team organised for forecasting and analysing consumer market	X ₁₁
	Availability of long-term strategic partner (construction, design, supervision and property management, etc.)	X ₁₂
Mechanism (M)	Effective corporate ownership	X ₁₃
	The innovation and reform on organisational structure	X ₁₄
	Reasonable equity structure, which promote the sustained development of organisation	X ₁₅
	Availability of mature decision-making mechanism	X ₁₆
	Appropriate incentive mechanism	X ₁₇
	Rational surveillance and restraint mechanisms on senior managers	X ₁₈
	Effective coordination mechanism with the related upstream and downstream enterprises	X ₁₉
	Autonomous and flexible market-oriented operation mechanism	X ₂₀
Capability (C)	Good at expanding finance channels and cash liquidity	X ₂₁
	Good at making investment analysis and orientation in the project feasibility stage	X ₂₂
	No major investment mistakes in recent three years	X ₂₃
	Entrepreneurship (e.g. top leaders with resolute determination and quick response to tell new market opportunity, superior strategic management capacity)	X ₂₄
	Scientific and rational use of capital budgeting and planning capabilities	X ₂₅
	Sensitive risk prediction, assessment and response capacity	X ₂₆
	Good team collaboration capability	X ₂₇
	Business marketing ideas, strategies and marketing schedule control can get maximum benefit	X ₂₈
	Scientific market research before the real estate project	X ₂₉
	The capability to grasp the latest market trends and characteristics of design concepts	X ₃₀
	Good at promoting the selling point of real estate project timely and effectively	X ₃₁
	Establishment of a specialised database of targeted consumers in time for effective communication and coordination	X ₃₂
	Sound and efficient organisational management capacity	X ₃₃
	Development of green corporate brand; conduct green strategy to gain social responsibility	X ₃₄
	Knowledge of change in market environment and market trend in good time	X ₃₅
	Efficient land pricing strategy and success rate of land bidding	X ₃₆
	Excellent value chain integration capability	X ₃₇
	Smooth access to relevant government departments' real estate project approval	X ₃₈
	Strict and efficient quality control and planning capability	X ₃₉
	Rational and clear corporate business schedule control	X ₄₀
	Good inter-departmental co-ordination capacity	X ₄₁
	Effective cost control methods and capabilities	X ₄₂

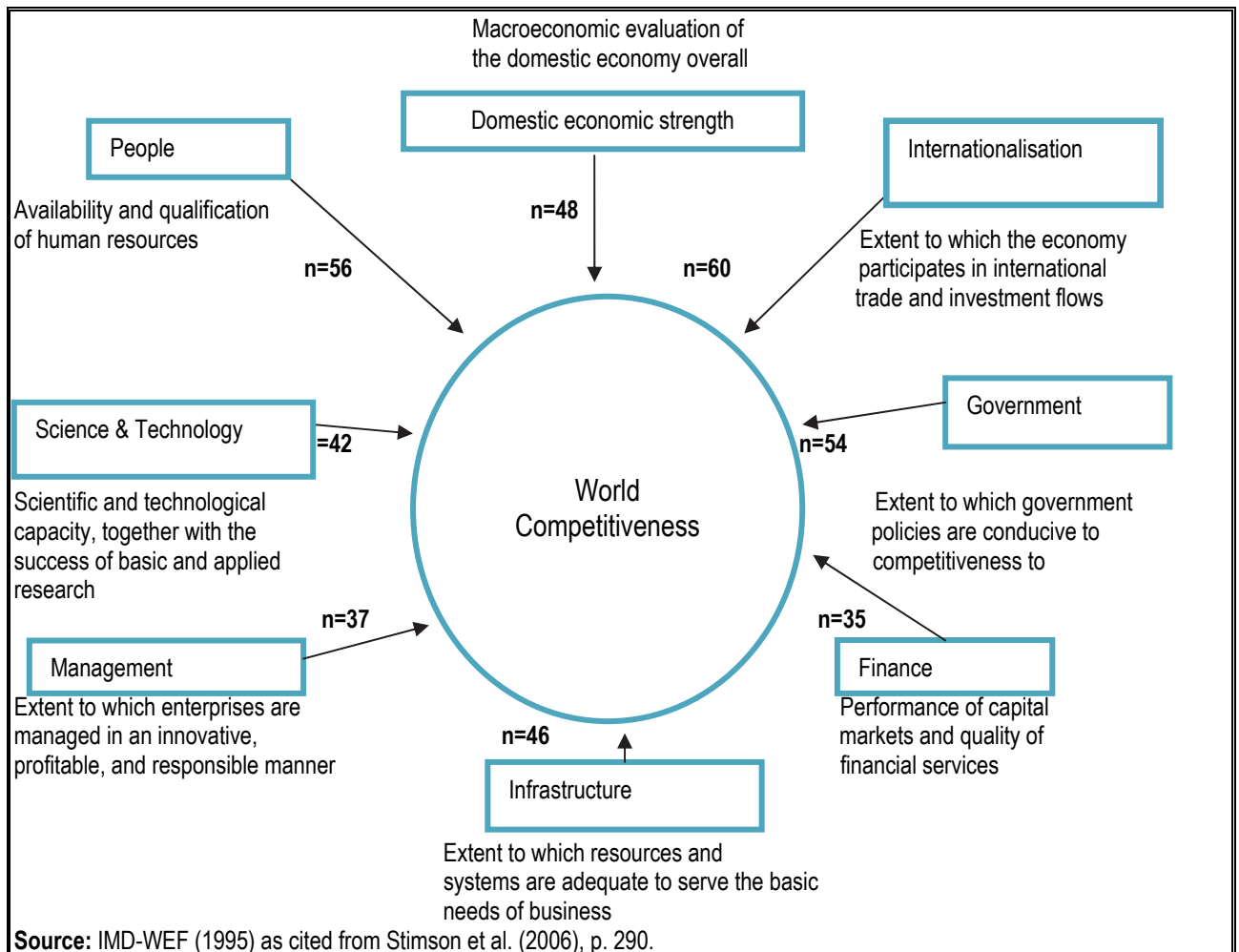
Source: Zhang et al. (2009), p. 231; Zhang et al. (2010a), p. 528-530; Zhang et al. (2010b), p.147 and p. 150; Zhang et al. (2011), p. 12-13.

In addition to Zhang et al's indicators approach, factor or/and ranking approaches have been widely used to assess competitiveness of nation, organisation or industry. For

instance, in 1995 the World Economic Forum (IMD-WEF)⁹⁴ developed a framework for analysing competitive performance of nations specifically those factors that represent core competitive competencies applicable to regional economic development and competitiveness. Under this framework, about 380 factors/indicators of competitiveness have been identified; the factors are listed in 8 categories as shown in Figure 3.

The WEF factor framework is used annually to report on the competitiveness of national economies. At the regional level, the IMD-WEF has been used to develop a competitive ranking index in Australia (see for instance Kasperet et al. (1992); Roberts and Stimson (1998)).⁹⁵

Figure 3: The Competitive Factors Framework



⁹⁴ See Stimson et al. (2006), p. 289-290.

⁹⁵ See Kasperet et al. (1992); also see Roberts/Stimson (1998) as quoted from Stimson et al. (2006), p. 290.

Bone-Winkel (1994)⁹⁶ also prepared a list of dimensions to assess competitiveness of a real estate firm in Germany. The author lists competitiveness dimensions of a property portfolio in two categories (i.e. relative competitive advantage, and market attractiveness), each with seven criteria. The list, as seen in Table 3, reflects the major influences in achieving competitiveness.

Table 3: Dimension of a Property Portfolio: Relative Competitive Advantage and Market Attractiveness

Dimension I: Relative Competitive Advantage	Dimension II: Market Attractiveness
(1) Use Concept and feasibility Feasibility in terms of uses Productivity of floor space Flexibility in terms of future uses	(1) Economic and political situation Structural and sectoral development Industry-specific trends Municipal policies Structure and efficiency of local administration Taxes
(2) Tenant mix Mix of industries, sizes and areas Credit standing and solvency Prestige/standing Contract management	(2) Demographic/socio-economic factors Population Structure of employment and social services Incomes and purchasing power Labour-market situation
(3) Site-related factors Location Building regulations Physical aspect of site Reserve areas/expansion areas Previous contamination Access and Infrastructure Surroundings Local market share	(3) Infrastructure Urban and central functions Town planning development Regional infrastructure
(4) Architecture/technical design Feasibility in terms of location/architectural surroundings Feasibility in terms of uses and tenants Feasibility in terms of technology Quantity of construction Image status/address	(4) Soft factors Cultural and leisure facilities Educational facilities Quality of housing Urban and regional marketing Image-related factors
(5) Property management, investment and operating costs In-house or outside management Allocation of resources Operating and maintenance Expenditures Need for re-development	(5) Structure and development of available property Size of market Direct competitors Vacancies Bargaining position of lessor Competitive behaviour of established investors Local market entry barriers Market transparency

⁹⁶ See Bone-Winkel (1994), p. 52.

Dimension I: Relative Competitive Advantage	Dimension II: Market Attractiveness
(6) Yield Initial yield Prospects for the future	(6) Structure and development of property demand Development of demand (local and outside users) Number and type of actual and potential tenants Location and site requirements Competition of substitute uses (owner-occupier, owner-developer)
(7) Potential increase/decrease in value	(7) Yield and price levels of local market segment Yield level by use and location Land and construction costs General development of yields Flexibility of prices

Source: Bone-Winkel (1994), p. 52.

A study by Shafaei (2009)⁹⁷ notes that, recent researches have also applied the concept of Analytical Hierarchy Process (AHP) for evaluating competitiveness of industries. The approach was first proposed by Saaty (1980) to guide decision making processes which involve structuring multiple-choice criteria into a hierarchy, then assessing the relative importance of these criteria, comparing alternatives for each, and determining an overall ranking of the alternatives. For instance, Sirikrai and Tang (2006)⁹⁸ apply AHP model to explore the degrees of importance of indicators of industrial competition for Thailand automotive parts industry. The results illustrate that, AHP can be applied to evaluate the competitive performance of competing companies. Chow and Luk (2005)⁹⁹ also use AHP framework to develop a cohesive approach to help managers identify which reliability, assurance, tangibles, empathy, responsiveness (RATER) service dimensions require attention to create a sustainable competitive advantage in offering service quality. In addition to that, Li et al. (2010)¹⁰⁰ use SWOT analysis in combination with AHP to analyse and select appropriate green manufacturing strategies for an enterprise.

2.3 Competitiveness

The concept of competitiveness still appears rather ill-defined. It is used in many different ways and a lot of definitions exist, which might lead to some confusion. The definition of competitiveness is complex as it revolves around macro (national), micro (firm), and meso (cluster) dimensions. A firm is competitive if it can produce products and services of superior quality and lower costs than its domestic and international

⁹⁷ See Shafaei (2009), p. 24.

⁹⁸ See Sirikrai/Tang (2006), p. 74.

⁹⁹ See Chow/Luk (2005), p. 281.

¹⁰⁰ See Li et al. (2010), p. 249.

competitors.¹⁰¹ Competitiveness includes both efficiency (reaching goals at the lowest possible cost) and effectiveness (having the right goals). It is this choice of industrial goal which is crucial. Competitiveness includes both the ends and the means towards those ends.¹⁰² Various definitions of competitiveness are presented in sub-section 2.3.1.

2.3.1 Defining Competitiveness

Competitiveness is the ability of a country to achieve sustained high rates of growth in GDP per capita (World Economic Forum, Global Competitiveness Report (1996)). Competitiveness Policy Council (1992) defines competitiveness as the capacity to produce goods and services that correspond to the demand of the international markets while giving to the citizens living standards that grow and can be preserved in the long time. International Institute for Management Development's World Competitiveness Yearbook (2003) defines competitiveness as a field of economic knowledge, which analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people.

For a firm, competitiveness is the ability to produce the right goods and services of the right quality, at the right price and the right time. It means meeting customers' needs more efficiently and more effectively than other firms do.¹⁰³ Sala-I-Martin et al. (2009)¹⁰⁴ define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy. Feurer and Chaharbaghi (1994)¹⁰⁵ provide that, a universal and exact definition for competitiveness does not exist, furthermore, competitiveness is relative and not absolute; it depends on shareholder and customer values, and financial strength which determines the ability to act and react within the competitive environment and the potential of people and technology in implementing the necessary strategic changes.

¹⁰¹ See Buzzigoli/Vivian (2009), p. 14.

¹⁰² See Buckley et al. (1988) as quoted from Buzzigoli/Vivian (2009), p. 14-15.

¹⁰³ See Edmonds (2000), p. 20.

¹⁰⁴ See Sala-I-Martin et al. (2009), p. 4.

¹⁰⁵ See Feurer/Chaharbaghi (1994), p. 49 and p. 58.

Competitiveness can only be sustained if an appropriate balance is maintained between these factors which can be of a conflicting nature.

Much of the underlying theory on competitiveness emanates from Michael Porter (1990). Unlike comparative advantage on which wealth is set by endowments, competitive advantage is whereby wealth is created by a nation's policy and competition choice. On the definition of competitiveness, Porter (1998)¹⁰⁶ has this to say:

...what became clearwas that there was no accepted definition of competitiveness. To firms, competitiveness meant the ability to compete in world markets with a global strategy. To many members of Congress, competitiveness meant that the nation had a positive balance of trade. To some economists, competitiveness meant a low unit cost of labor adjusted for exchange rates. Partly because of these differences, much energy has been expended in the United States debating whether there is a competitiveness problem at all. The debate about competitiveness raged on, and still does today. Whichever the definition of competitiveness adopted, an even more serious problem has been there is no generally accepted theory to explain it.

Despite the existence of a number of strands of literature on competitiveness, the common agreement about the definition or the model of competitiveness has not been reached.¹⁰⁷ Contributing to the discussion on the confusion of the term competitiveness, Porter (2002)¹⁰⁸ provides further that:

Competitiveness has become a central preoccupation of both advanced and developing countries in an increasingly open and integrated world economy. Despite its acknowledged importance, the concept of competitiveness is often misunderstood. Much discussion of competitiveness and economic development has focused on the macroeconomic, political, legal, and social circumstances that underpin a successful economy. It is well understood that sound fiscal and monetary policies, a trusted and efficient legal context, a stable set of democratic institutions, and progress on social conditions contribute greatly to a healthy economy. However, these broader conditions are necessary but not sufficient, providing the opportunity to create wealth but not by themselves creating wealth. Wealth is actually created in the microeconomic level of the economy, rooted in the sophistication of company strategies and operating practices as

¹⁰⁶ See Porter (1998), p. xii.

¹⁰⁷ See Porter (1998), p. xii; also see Balkyte/Tvaronaviciene (2010), p. 359.

¹⁰⁸ See Porter (2002), p. 52.

well as in the quality of the microeconomic business environment in which a nation's firms compete. Unless there is appropriate improvement at the microeconomic level, macroeconomic, political, legal, and social reforms will not bear full fruit.

Porter (1998); (2002) observes that, regardless of which definition was adopted, there was no generally accepted theory to explain competitiveness. He developed his famous '*Diamond Model*' to explain the theory of competitive advantage that has since been adopted by many research studies in the area of competitiveness. According to Porter (1998); (2002)¹⁰⁹ the business environment can be understood in terms of four interrelated influences which are factor conditions, demand condition, firm strategy, structure and rivalry, and related and supporting industries (see Figure 5). Porter, (2004)¹¹⁰ distinguishes between two sets of factors that impact competitiveness; the social, political, macroeconomic and legal context, and the microeconomic foundations on the other hand.

Different strands of literature on competitiveness, centre on the different categories of analysis. According to Balkyte and Tvaronaviciene (2010)¹¹¹ different categories of competitiveness research areas have been classified, which include; competitiveness of companies (firm level competitiveness), sectors competitiveness, regional competitiveness (area, place, locality, territorial, city, urban competitiveness), national competitiveness (county competitiveness), bloc competitiveness (regional competitiveness), and international competitiveness (global competitiveness, external competitiveness). The various categories of competitiveness are as shown in Figure 5.

¹⁰⁹ See Porter (1998), p. 127; also see Porter (2002), p. 56.

¹¹⁰ See Porter (2004), p. 29.

¹¹¹ See Balkyte/Tvaronaviciene (2010), p. 346.

Figure 4: Classification of Competitiveness Research Areas

2.3.2 Three Stages for the Structural Base of Competitiveness¹¹²

2.3.2.1 The Factor-driven Stage

This concerns the low level of development countries, for which the mobilisation of primary factors of production (land, primary commodities and unskilled labour) is the main condition for macroeconomic growth. At this stage *“government’s main job is to provide overall political and macroeconomic stability and sufficiently free markets to permit the effective utilisation of primary commodities and unskilled labour both by indigenous firms and through attracting foreign investments.”* For this category of countries, price remains the first asset in global competitiveness, and the engine of progress towards the second level group is the assimilation of technology through imports, foreign direct investments and imitation.

2.3.2.2 The Investment-driven Stage

This stage concerns the middle-income status countries where growth is investment driven and competitiveness is achieved by harnessing global technologies to local production. Foreign direct investments, joint ventures and outsourcing arrangements help to integrate the national economy into international production systems. At this stage, in order to foster attractiveness, government priorities need to focus increasingly on improvements in physical infrastructure (ports, telecommunication, roads etc.) and

¹¹² See Porter et al. (2002), p. 17-22; Sala-i-Martin et al. (2009), p. 7; Heeks (2006), p. 11-12.

regulatory arrangements (customs, taxation, company law) to allow the economy to integrate more fully with global markets.

2.3.2.3 The Innovation-driven Stage

The stage concerns the high-income status countries, which have achieved the transition from a technology-importing economy to technology generating economy. In that case *“competitiveness is critically linked to high rates of social learning (especially science-based learning) and the rapid ability to shift to new technologies.”* Nevertheless this transition is considered as the hardest one, the establishment of an innovation-based development requires a direct government role in fostering a high rate of innovation, through public as well as private investment in research and development, higher education and improved capital markets and regulatory systems that support the start up of high technology enterprises.

It is well known that, there is no universal strategy to increase growth, much of the success of a competitiveness strategy depends on the stage of development of individual economy. Successfully managing transition from one stage to the other has been a problem for many countries. According to Porter et al. (2002)¹¹³ the shift from one phase of development to the next often requires new ways of organising governments, markets, and enterprises, so it is not altogether surprising therefore that many countries fail to make the appropriate transitions, or even fail to recognise that such a transition is needed.

2.3.3 Measures and Drivers of Competitiveness

Although profitability indicators such as return on investment and return on assets are traditional proxies of competitiveness, several non-financial performance indicators are also important.¹¹⁴ Sirikrai and Tang (2006) provide further that, the literature in operations management shows that, non-financial performance indicators are also important competitiveness indicators, especially in the manufacturing sector. Apart from profitability indices, the literature also mentions amongst others the following performance indicators; market share, sales volume, growth, profitability, quality of

¹¹³ See Porter (2002), p. 4.

¹¹⁴ See Sirikrai/Tang (2006), p. 72; Li (2011), p. 46.

products, perceptions on overall customer satisfaction, overall competitiveness, productivity, and market performance.¹¹⁵

Other authors (such as McAdam and Bailie (2002); Nilsson and Kald (2002); Kaplan and Norton (1996); Kaplan and Norton (1992); Letza (1996))¹¹⁶ note that, the use of both financial and non-financial performance indicators reveals an integrated view of a business performance and guides business decisions. Traditional financial accounting measures like return-on-investment and earning-per-share can give misleading signals for continuous improvement and innovation which are the activities today's competitive environment demands.¹¹⁷ Therefore, the use of both financial and non-financial indicators, would provide a comprehensive picture of competitiveness analysis of a certain industry or firm.

Authors such as Neely et al. (2001); Horne et al. (1992); O'Cass and Ngo (2007)¹¹⁸ note that, the external environment can result in better business performance. Others mention competitiveness indicators, amongst others, to include organisational culture, corporate culture, human resources, quality of customer services, overhead costs, product/service development and efficiency, and marketing expertise.¹¹⁹ Additionally, other studies show that, demographic, psychological and behavioural characteristics of entrepreneurs, as well as managerial skill and technical know-how are important features related to a firm's performance; the relationship of attributes to a large extent is affected by industrial, environmental and firm-specific characteristics and strategies.¹²⁰ According to Man et al. (2002),¹²¹ three key aspects i.e. internal firm factors, the external environment, and the influence of entrepreneur contribute to a

¹¹⁵ For Market share see Li (2000), p. 311; Anderson/Sohal (1999), p. 874. For sales volume see Li (2000), p.311; Anderson/Sohal (1999), p. 874. For growth see Peneder et al. (2009a), p. 8; Heywood/Kenley (2008a), p. 88. For profitability see Lau (2002), p. 132. For quality of products see Tracey et al. (1999), p. 424. For perceptions on overall customer satisfaction see Tracey et al. (1999), p. 424; Sharma/Fisher (1997), p. 293. For overall competitiveness see Lau (2002), p.31; Anderson/Sohal (1999), p. 874. For productivity see Ross (2002), p. 604; Sharma/Fisher (1997), p. 293; and for market performance see Ross (2002), p. 604.

¹¹⁶ See McAdam/Bailie (2002), p. 972 and p. 975-976; Nilsson/Kald (2002), p. 235 and p. 237; Kaplan/Norton (1996), p. 306-307; Kaplan/Norton (1992), p. 71, p. 77 and p. 79; Bourne et al. (2000), p. 768; Ezzamel (1992), p. 115 as quoted from Letza (1996), p. 55; and also see Schiemann (1996) as quoted from Neely (1999), p. 209.

¹¹⁷ See Kaplan/Norton (1992), p. 71.

¹¹⁸ See Neely et al. (2001), p. 121; Horne et al. (1992), p. 56 and p. 58; O'Cass/Ngo (2007), p. 13 and p. 19.

¹¹⁹ See Li (2011), p.47-48; Hult et al. (2002), p. 578-579.

¹²⁰ See Li (2011), p. 47; Man et al. (2002), p. 125.

¹²¹ See Man et al. (2002), p. 124 and p. 130.

firm's competitiveness. The authors further suggest that, the process of achieving competitiveness is strongly influenced by key players. This finding is also supported by Li et al. (2009).¹²² Other literature emphasises on the governments' policies in achieving the competitiveness of a firm or industry.¹²³

Peneder et al. (2009a)¹²⁴ note that, macroeconomic stability, the corporate tax rate or the working of factor markets, are important drivers of competitiveness. However, they are shaped by the general business environment, the relative intensity in factor use, the incentives to pursue opportunities, and the specific capabilities required for transforming them into successful business. Peneder et al. (2009b)¹²⁵ furthermore, amongst others, mention macroeconomic conditions (e.g. fluctuations in GDP and employment, interest rates, exchange rates, government spending, corporate tax rates, and the change in relative prices), market structure, sectoral characteristics of openness and barrier to trade, and R&D and innovation as drivers of competitiveness. Zislin and Barret (2009)¹²⁶ support the notion that, macroeconomic conditions affect sectoral growth and performance by defining the environment within which companies and industries operate. A study by Gross and Ringbeck (2008)¹²⁷ reveals that, environmental sustainability (which is determined by measures such as regulatory policies, the eco-footprint, and behaviour of operators in the industry) is also a driver of sector's competitiveness.

2.4 A Review and Analysis of Porter's Model

Porter's model explains the competitive position of a nation, industry or firm centering around four key interdependent attributes namely; demand conditions, factor conditions, firm strategy, structure and rivalry, and related and supporting industries.¹²⁸

The four key attributes are discussed in sub-section 2.4.1.

¹²² See Li et al. (2009), p. 6.

¹²³ See Monitor Regional Competitiveness (2008), p. 14; also see Porter (1998), p. 617 et seqq.

¹²⁴ See Peneder et al. (2009a), p. 7.

¹²⁵ See Peneder et al. (2009b), p. 41-42.

¹²⁶ See Zislin/Barret (2009), p. 233.

¹²⁷ See Gross/Ringbeck (2008), p. 3.

¹²⁸ See Porter (1998), p. 72.

2.4.1 Fundamentals of Porter's Model

2.4.1.1 Demand Condition

This considers the nature of the local market demand for the industry's product/service in terms of size and growth. If the local market demand is higher than the foreign market, the firms are then advised to put more emphasis on improvement of the product/services. A more demanding home market is seen as a driver for the growth, innovation and quality improvements.

2.4.1.2 Factor Conditions

This refers to the nation's position in factors of production such as:

- The quantity, skills, and cost of the personnel
- The abundance, quality, accessibility, and cost of the nation's physical resources such as land, water, mineral deposits, timber, hydroelectric power sources, and fishing grounds etc.
- The nation's stock of knowledge resources, including scientific, technical, and market knowledge that affect the quantity and quality of goods and services
- The amount and cost of capital resources that are available to finance industry, and
- The type, quality, and user cost of the infrastructure, including the nation's transportation system, communications system, health-care system, and other factors that directly affect the quality of life in the country

2.4.1.3 Firm Strategy, Structure and Rivalry

This reflects the context shaping the extent of corporate investment, the ways in which firms are managed and choose to compete, the types of strategies employed, the goals that companies seek to attain as well as the motivations of their employees and managers, and the intensity of local rivalry and the creation and persistence of competitive advantage in the respective industry. Home market with less rivalry, will be counterproductive and a barrier in generating global competitive advantages such as innovation and development.

2.4.1.4 Related and Supporting Industries

This describes the availability and quality of local suppliers and related industries which offer efficient, early, or rapid access to cost effective inputs and also availability of internationally competitive related industries that can coordinate and share activities in the value chain when competing or those that involve complementary products. If supporting industries and supplies are competitive, the local companies will become more cost efficient and receive more innovative parts, materials and products.

Porter's model also considers two outside forces that affect competitiveness of a nation, industry or firm. These forces are the role of the *government* and the role of *chance*. Porter insists that, the government has a powerful role of transmitting and amplifying the forces of the diamond. The role of the government is to act as a catalyst and a challenger. The government has to encourage or push companies to raise their aspirations and move to higher levels of competitive performance. Governments can influence all four Porter's determinants through a variety of actions such as:

- Subsidies to firms, either directly (money) or indirectly (for instance through infrastructure building)
- Tax codes applicable to corporation, business or property ownership
- Educational policies that affect the skill level of workers
- Assist in opening foreign markets and investment in specialised factor creation
- Enforce tough standards (for instance establishing high technical and product standards including environmental regulations)

On the other hand, the role of chance which is often largely outside the power of firms, is caused by development such as new inventions, political decisions, shift in world financial market or exchange rates, wars etc. Inclusion of the government in the Porter's model is also supported by Dunning (1993).¹²⁹ The Porter's model is shown in Figure 5. The figure illustrates the complete system of the four determinants with each one affecting the other and all in turn, being affected by the role of government and chance.

¹²⁹ See Dunning (1993), p. 14.

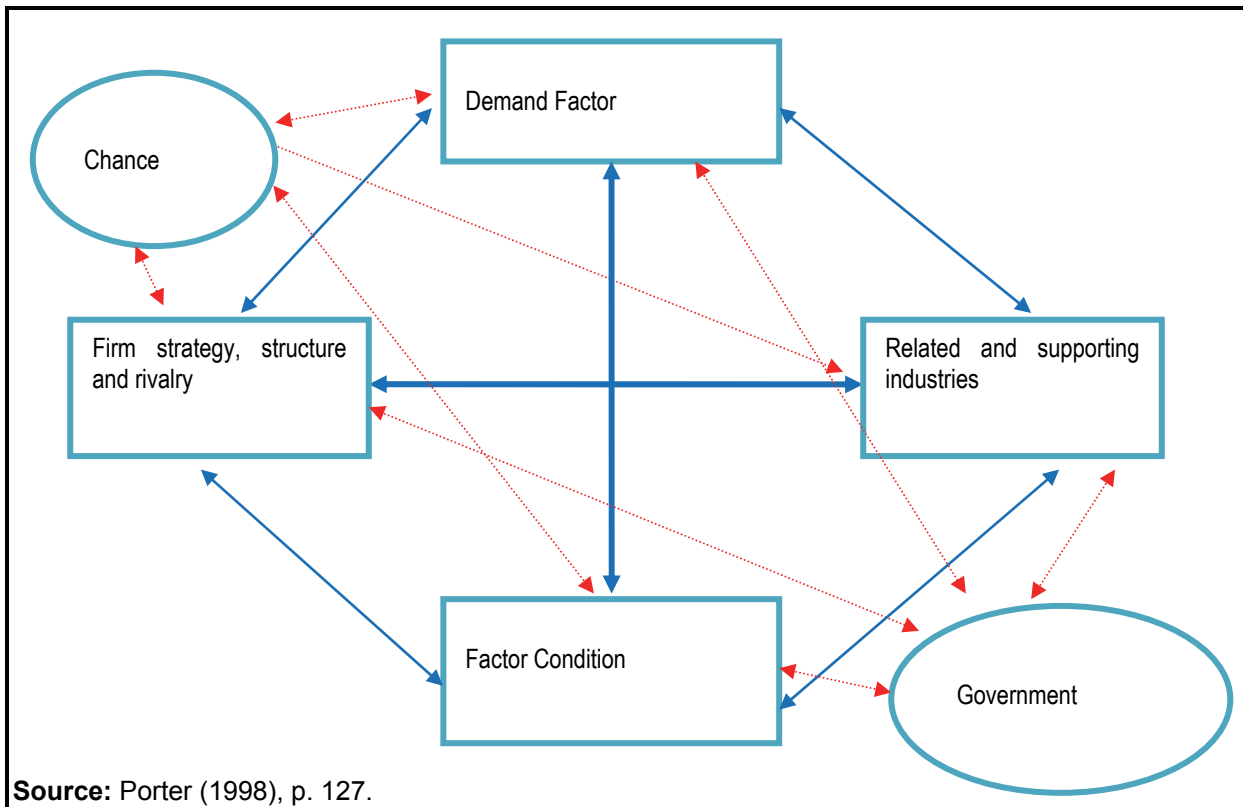
However, Porter (1998)¹³⁰ argues that, it is inappropriate to attempt to derive a single measure of national competitiveness, and insists on studying individual sectors. National competitiveness is nothing more than the aggregate of a nation's individual industries' productivity. Flanagan et al. (2004)¹³¹ argue further that, the individual industry's challenge is to create the conditions for rapid and sustained productivity growth that will bring about competitive advantage. The statement provided by Porter (1998) gives the foundation for undertaking the current research on the real estate industry, which is one of the economic sectors in Tanzania for which competitiveness research work has not been undertaken.

To remain competitive, industries must continuously seek to add value to their activities, i.e. improve operational effectiveness (including the use of new technologies), remove inefficiency and excess cost, enhance process effectiveness (design integration), improve business performance (profitability) and increase stakeholder satisfaction.¹³² The authors state further that, adding value also requires an industry to improve its image and capitalise on the value drivers for its growth, while recognising its strengths and limitations. This means that, successful real estate development and investment requires all factors adding value from the initial stage of property acquisition to property development to be taken into account so as to enhance the sector's growth. Better performance will result from exploring the value adding attributes and dealing with the weaknesses surrounding the real estate industry internally and externally.

¹³⁰ See Porter (1998), p. 3-6.

¹³¹ See Flanagan et al. (2004), p. 11.

¹³² See Flanagan et al. (2004), p. 12.

Figure 5: Porter's Diamond Model on the Microeconomic Business Environment

However, over the recent past, Porter's model has been a subject of much debate and discussion. Many strands of literature on Porter's model have focused on criticising the applicability or effectiveness of the model in different countries and for different business undertakings and environments (for example see Stone and Ranchhod (2006); Grant (1991); Narula (1993); Rugman and Verbeke (1993); Rugman and D'Cruz (1993a); Dunning (1993); Bellak and Weiss (1993); Van Den Bosch and Van Prooijen (1992); Cho et al. (2009); Smit (2010)).¹³³ However, none of the studies focuses on real estate business. In 2005, Kim and Mauborgne¹³⁴ introduced a new strategic way of thinking using the Blue Ocean Theory. The proponents of the Blue Ocean Theory contrast the traditional view of Porter by arguing that competitive-based strategies are irrelevant. Instead they insist that *value innovation* is the cornerstone strategy to excel in business undertaking.

¹³³ See Stone/Ranchhod (2006), p. 283; Grant (1991), p. 535; Narula (1993), p. 86; Rugman/Verbeke (1993), p. 72; Rugman/D'Cruz (1993a), p.18; Dunning (1993), p. 7; Bellak/Weiss (1993), p. 117; Van Den Bosch/Van Prooijen (1992); p. 173; Cho et al. (2009), p. 84; also see Smit (2010), p. 107.

¹³⁴ See Kim/Mauborgne (2005), p. 12.

Bellak and Weiss (1993); Rugman and D'Cruz (1993a); Rugman and Verbeke (1993)¹³⁵ also criticise the Porter's model that it is not applicable to most of the world's smaller nations. Extending the criticism of Porter's model to the developing countries, Narula (1993)¹³⁶ argues that, the model cannot be extended to explain the developing countries or their development; because the model does not provide a basis for differentiating between countries based on their potential for economic growth or their rate of growth. Similarly, Von Kirchbach (2003)¹³⁷ argues further that, in many developing countries resources (which Porter considers to be non-key factors of competitiveness) may be the only part of the 'diamond' where strategy-makers see an opportunity to raise competitiveness, and thereby improve performance in the short run. Competitive advantage is a characteristic of both the firm and its relationship to its environment.¹³⁸

On the other hand, Smit (2010)¹³⁹ maintains that, Porter's view on the existence of related and supporting industry is one of the determinants of national competitiveness that tends to disregard the fact that clusters are a prominent feature of virtually advanced economy, but are lacking in the developing countries, which limits productivity growth in those economies. O'Shaughnessy (1996)¹⁴⁰ is of the opinion that, Porter's model has no relevance to the developing countries as those countries have their own problems such as unreliable or non-existent transport and communications infrastructure, product quality from developing countries do not approach international norm, and there is a problem with politics and culture (i.e. corruption).

¹³⁵ See Bellak/Weiss (1993), p. 117; Rugman/D'Cruz (1993a), p. 18 and p. 26; also see Rugman/D'Cruz (1993b), p. 73.

¹³⁶ See Narula (1993), p. 85 and p. 89.

¹³⁷ See von Kirchbach (2003); International Trade Centre, International Trade Forum.

¹³⁸ See Saloner et al. (2001), p. 40.

¹³⁹ See Smit (2010), p. 118.

¹⁴⁰ See O'Shaughnessy (1996), p. 14.

2.4.2 Adequacy of the Porter's Model for Analysing Tanzanian Real Estate Industry

2.4.2.1 Demand Condition

Porter's competitiveness variables make sense and give out the guideline on achieving the state of competitiveness to a large extent. However, the model was designed with reference to developed countries where most of the variables are present and the system works efficiently. As for other developing countries, Tanzania also seems to face the same challenges on the reliability of the framework provided by Porter. For instance, Porter insists that, the demanding home market is one of the driving forces for competitiveness. Looking at it differently, with the existing situation in Tanzania, this argument does not hold water. For instance, the country's housing deficit is estimated at 3 million units currently, however, the existing business environment does not motivate developers and investors to take advantage of the existing opportunity. As for other products, analysis of demand for the real estate market, for whatever use is determined by income. Meaning that, demand is always induced by income growth. Any rational developer would be interested to know whether there would be buyers/tenants for instance, if the 3 million units were supplied today. The presence of the opportunity in property development would suggest a number of strategies to be put in place in order to promote property development and investment in the country. In any business undertaking, demand is just one factor which guides investment and development decisions; ability to buy is another important factor which affects investment decisions.

2.4.2.2 Factor Conditions

Tanzania is a natural resource rich country; the country has abundant resources such as land, sources of energy, water, timber etc. However the exploitation of the said resources has been a challenge. It is estimated that Tanzania's solar installed capacity is around 4MW.¹⁴¹ Owing to its location, Tanzania has a high solar energy potential. Tanzania is located between longitude 29⁰ and 41⁰ East and latitude 1⁰ and 12⁰ South.¹⁴² Tanzania solar energy potential is reported to be much higher than that of

¹⁴¹ See Ondraczek (2011), p. 1.

¹⁴² See NBS (2007), p. 5.

Europe with an estimated range from 1825 to 2,430 kWh/m.¹⁴³ Almost all parts of the country are potentially suitable for solar energy production. Similarly, there are many areas in Tanzania with strong and reliable winds which could be harnessed to produce energy.¹⁴⁴ However, currently there are only few simple wind mills in different places around the country which are used for domestic and agricultural water pumping.¹⁴⁵ Many areas in Tanzania are potential sources of hydro electricity energy. Although potential capacity for hydro energy is 4,700 MW,¹⁴⁶ total installed generation capacity is 1,219 MW, of which only 561 MW is hydroelectric and 658 MW is thermal.¹⁴⁷ Wave and tide energy are other potential sources of electricity given more than 800km of the Indian Ocean coastline and the three Great Lakes i.e. Victoria, Tanganyika and Nyasa all of which are partly in Tanzania. Prospects for geothermal energy also exist.¹⁴⁸

However, Tanzania has low level of electricity consumption per capita, electricity consumption per capita is 150 KW.¹⁴⁹ Even the supply of this little amount of electricity is actually not guaranteed. It has been quite common in Tanzania to have power shedding for some months in a year, especially during dry season. Power consumption per capita is estimated to be 47.6 kWh,¹⁵⁰ with only about 14% of the population having access to electricity and the rest using biomass energy.¹⁵¹

Like electricity sources, water sources in Tanzania are also abundant. Tanzania has about 61,500 km² of its area occupied by rivers and lakes,¹⁵² but the country is yet to provide piped water service to its entire population. Like electricity, it is also common in Tanzania to have public mains water shedding and unannounced interruptions of water flow from the public mains mainly due to old and worn out water supply infrastructure. Tapped water services are inadequate and its availability in buildings is not always guaranteed.

¹⁴³ See Ondraczek (2011), p. 5.

¹⁴⁴ See Nzali/Mushi (2006), p. 2 and p. 13.

¹⁴⁵ See Nzali/Mushi (2006), p. 4-9.

¹⁴⁶ See Mwakapunji et al. (2010), p. 8; MEM (2010), viewed under <http://www.mem.go.tz/>; Kabaka/Gwang'ombe (2007), p. 2.

¹⁴⁷ See UNESCO National Commission of URT (2011), p. 237.

¹⁴⁸ See Gawell/Greenberg, (2007), p. 3.

¹⁴⁹ UNESCO National Commission of URT (2011), p. 237

¹⁵⁰ See World Bank (2010e), p. 7.

¹⁵¹ See Mwakapunji et al. (2010), p. 6; MEM (2010), viewed under <http://www.mem.go.tz/>; See UNESCO National Commission of URT (2011), p. 237.

¹⁵² NBS (2007), p. 6.

Tanzania is also rich in both natural and man-made building materials. There are approximately 33 million hectares of forests in Tanzania which if harvested sustainably, could be a good source of wood products for construction purposes. Besides, many parts of the country have vast deposits of sand and stones of different types. Tanzania, being a large country measuring about 945, 000 km² has different kinds of soils which are suitable for making a wide range of building materials such as bricks and tiles. Besides, there is a number of factories and industries producing a wide range of building materials such as cement, steel, paints etc. It is thus possible and cheaper to construct most of the buildings using locally obtained materials, with only a limited amount of imported materials. Availability of a wide range of natural building materials locally could be one of the reasons to avoid the use of some imported synthetic material some of which may have high radiation potential or contain toxic substances.

Owing to the fact that the country has abundant natural resources, one would expect the cost of construction to be low, also not to have power rationing and water supply interruptions. With the high rate of population, one would expect high growth of the real estate sector as well. However, most of the available resources remain unexploited. As far as real estate development and investment are concerned, stock of natural resources is just one of the added advantages. Problems such as lack of property development finance, high construction costs, poor infrastructure, and ineffectiveness in implementation of the real estate related laws, policies and regulations hinder the sector's growth and keep it far away from achieving competitive advantages.

2.4.2.3 Firm Strategy, Structure and Rivalry

Real estate development and investment entail a process which involves many stakeholders, some of whom are not directly involved in land related matters. Stakeholders such as real estate professionals, developers, land owners, construction companies, financial institutions, service and infrastructure providers, municipal authorities, etc. all influence the operations of the property development and investment in one way or another. All these stakeholders have their own ways of doing things which have impacts (negative or positive) on exploring the competitive advantage of the real estate industry. There is little competition in the real estate development. Apart from pension funds, NHC and TBA, there are no active large scale

property developers in the country. Porter was of the opinion that, less rivalry is a counterproductive barrier to taking competitive advantage in innovation and development. This seems to be true for Tanzania; there is less competition in the industry, which could be one of the reasons for slow growth of the sector. Less rivalry is also a problem in getting quality services such as electricity and water.

2.4.2.4 Related and Supporting Industries

Tanzania has a weak base of related and supporting industries which are emphasised by Porter to be drivers for competitiveness. For instance, financial institutions, building construction companies, service provision companies, property development companies are not well developed in the country. Services offered by the authorities responsible for lands matters are not of high quality and in most cases there is delay in every transaction. This could explain for example, the high cost of construction in the country, incremental property development practices, the shortage of serviced and surveyed land, infancy of mortgage finance sector, lack of innovation, and bureaucracy in the land sector.

It is indisputable that, demand condition, factor condition, firm strategy, structure and rivalry, related and supporting industries, together with the government policies would lead to the state of competitiveness. Cognizant of the fact that, these variables do not exist or are weak in Tanzania, some other strategies need to be looked into, taking into account the level of the country's development, internal and external environment which influence the state of competitiveness. Tanzania is at *factor-driven* development stage which is the genesis of most of its competitive advantage. The real estate industry would succeed where objectives and motivations of the property developers and investors are aligned with the sources of competitiveness. More discussion on the competitiveness in the real estate sector is provided in Chapter Four.

Although there are a number of criticisms on Porter's model, the model is not completely obsolete. It still provides a guideline on how to attain a competitive position in different business and investment undertakings. For instance, Grant (1991)¹⁵³ argues that, the primary contribution of Porter's work is in explaining the patterns of

¹⁵³ See Grant (1991), p. 536.

trade and investment in the new world economy better than the existing theories of international trade and investment. Although developed in 1990, Porter's model is still widely applied to gauge competitiveness of different firms in different countries under different environments. Table 4 for instance, shows a few studies which have used Porter's Diamond model over the last decade. Authors such as Stone and Ranchhod (2006)¹⁵⁴ put emphasis on further research for the advancement of Porter's model by scholars in other countries. This study uses Porter's model to explain how the real estate industry would grow and maintain the competitive environment.

Table 4: Some Recent Studies which use Porter's Model

Title	Author	Journal/Publication	Year	Purpose
Thailand's competitive advantage in ASEAN after Asian crisis: Among the five-selected ASEAN nations: Indonesia, Malaysia, Philippines, Singapore and Vietnam	Muengmor, P.	Master programme in Economic Growth, Innovation and Spatial Dynamics-Lund University	2011	The study utilises Porter's model to measure Thailand's competitiveness
Empirical Research on Competitiveness Factors: Analysis of Real Estate Industry of Beijing and Tianjin	Sun, H. et al.	Engineering, Construction and Architectural Management, Vol. 17, No. 3, p. 240-251	2010	The study uses and modifies Porter's model to develop a model to analyse the interactions among the competitiveness factors of the real estate industry in Beijing and Tianjin, China.
The competitive advantage of nations: is Porter's Diamond Framework a new theory that explains the international competitiveness of countries?	Smit, A. J.	Southern African Business Review, Vol. 14, No. 1, p. 105-130	2010	The paper criticises Porter's model. The author maintains that, the model is not a new theory that explains the competitiveness of countries but rather a framework that enhances understanding of the international competitiveness of firms
Competitive position of analysed sectors	Jordan Ministry of Planning and International Cooperation	Jordan's competitiveness report 2008-2009	2009	The study uses Porter's model to analyse competitiveness of banking, insurance, and processed meat sectors in Jordan
Does one size fit all? A dual double diamond approach to country-specific advantages.	Cho, D-S. et al.	Asian Business and Management, Vol. 8, No. 1, p. 83-102	2009	The paper looks at the validity of Porter's model and comes up with the 'Dual Double Diamond' (DDD) model as a new model that measures and analyses more comprehensively the competitiveness of nations

¹⁵⁴ See Stone/Ranchhod (2006), p. 293.

Title	Author	Journal/Publication	Year	Purpose
Competitive advantage of a nation in the global arena: A quantitative advancement to Porter's Diamond applied to the UK, USA and BRIC Nations.	Stone, H. B. J.; Ranchhod, A.	Strategic Change, Vol. 15, No. 6, p. 283–294	2006	The paper uses Porter's model to develop a quantitative approach/model to determine the competitive advantage of the BRIC nations, the UK and the USA
Using competitive advantage theory to analyse IT sectors in developing countries: A software industry case analysis	Heeks, R.	Information Technologies and International Development, Vol. 3, No. 3, p. 5–34	2006	The paper applies Porter's model to provide guidance for researchers and analysts on when, why, and how to apply Porter's competitive advantage theory to analyse the competitiveness of IT sectors in developing countries
The competitive advantages of nations: Applying the "Diamond" model to Armenia	Chobanyan, A.; Leigh, L.	International Journal of Emerging Markets, Vol. 1, No. 2, p. 147-164	2006	The paper applies Porter's model to draw conclusions about current situation, future prospects and appropriate development policies for Armenia
An analysis of the computer industry in China and Taiwan using Michael Porter's determinants of national competitive advantage	Bridwell, L.; Kuo, C-J.	Competitiveness Review: An International Business Journal incorporating Journal of Global Competitiveness, Vol. 15, No. 2, p. 116-120	2005	The paper uses Porter's model to analyse the potential of Taiwan and China in the computer industry
Assessing Porter's framework for national advantage: The case of Turkey	Oez, O.	Journal of Business Research, Vol. 55, No. 6, p. 509-515	2002	This paper applies Porter's model to identify the sources of international competitive advantage for Turkey
Tourism in South Korea: A performance evaluation model for Korea national tourism organisation	Hong, C. C. et al.	Master thesis- Nanyang Technological University	2001	The study deploys Porter's model to review the competitiveness of South Korea's tourism industry
Competition in UK higher education: Competitive advantage in the research assessment exercise and Porter's Diamond Model	Curran, P. J.	Higher Education Quarterly, Vol. 54, No. 4, p. 386-410	2000	The paper uses Porter's model to explore what gives competitive advantage at the level of the department, discipline, and nation in the UK higher education system

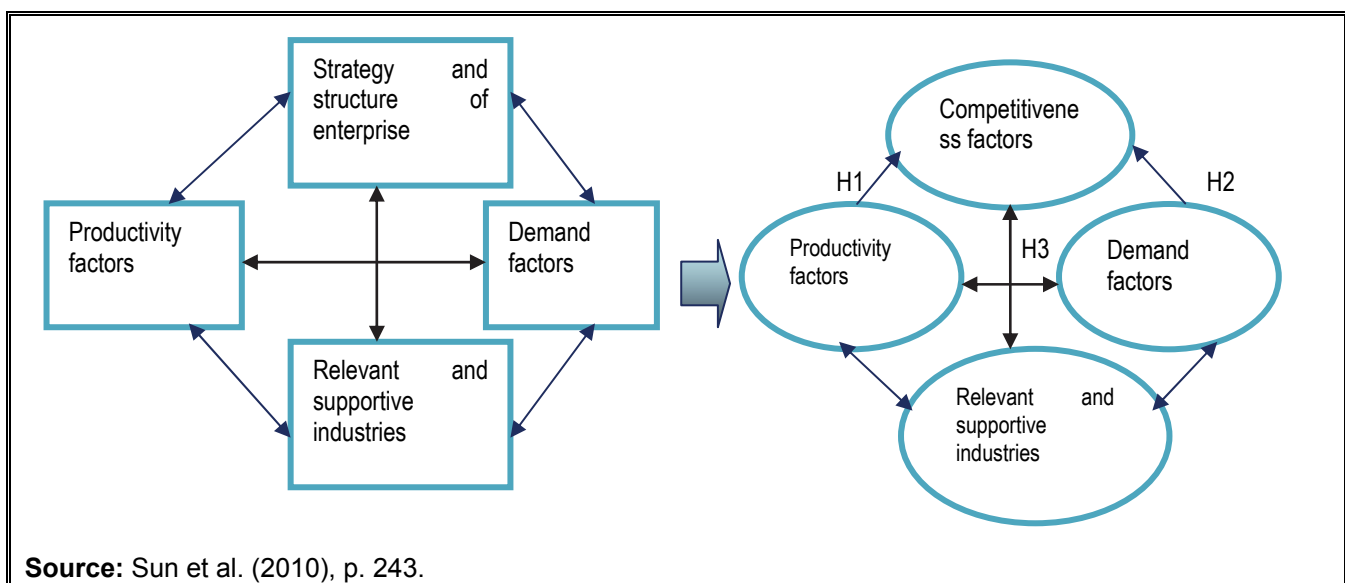
Source: Author's Compilation, 2011.

The study by Sun et al. (2010)¹⁵⁵ is amongst the few studies which applies the Porter's Diamond model in real estate industry. The authors develop a model for analysing the interactions among the competitiveness factors of the real estate industry on the basis of Porter's Diamond model. Based on Porter's Diamond model, the study establishes the competitiveness factors model and divides the factors into four key categories; productivity element, demand constraint, the strategy or structure of relevant and supportive industry, and corporation and horizontal competition (as it can be seen in

¹⁵⁵ See Sun et al. (2010), p. 240 and p. 242.

Figure 6). The study finds out that, related industries have the most significant influence on competitiveness of real estate industry in two municipalities in China, and the second important is demand factors. Furthermore, the authors provide that, the Diamond model plays an important role in shaping the competitiveness performance of industries, and the model can as well be applied to set up a conceptual structure in analysing the competitiveness of the real estate industry.

Figure 6: Porter's Diamond Model and the Model of Real Estate Industry Competitiveness Factors



Some strands of literature on competitiveness have provided guidance for studying real estate industry's competitiveness in a broad perspective. However, it is a fact that, different backgrounds in different markets settings present different challenges in applying the existing models and theories in an individual market. For instance, the Tanzanian real estate market is different in many ways from other market settings in developed countries and even in other developing countries. Tanzania is still undertaking institutional and economic reforms. Real estate industry is one of the sectors which experiences changes brought about by the reforms. Although the reforms are still on-going, one cannot be certain about the effectiveness of many of the newly introduced reforms. Owing to the infancy of the Tanzania real estate market, there are still many challenges which face the industry which in one way or another affect its growth and the chances for achieving the state of competitiveness. Different from many countries, Tanzania has few private real estate development companies

which have not provided significant contribution to the property stock in the market so far. These companies are especially involved in few big commercial projects and luxurious residential apartments and villas. For individual real estate development, normally property owners carry out development on an incremental basis often using small contractors or technicians. There are no large land buying or servicing companies in the country.

Li et al. (2009)¹⁵⁶ insist that, despite the importance of corporate competitiveness, the core competitiveness of property development is different from other industries partly due to the uniqueness of the property industry. This observation concurs with the one reported by Flanagan et al. (2004)¹⁵⁷ who observed that, national construction industries operate in different environments with different objectives and any comparison based on any one country is biased. Providing precautions on the use of competitiveness models, Cho et al. (2009)¹⁵⁸ have this to say; “one important point in assessing national competitiveness is that, countries differ from one another in many aspects. Countries differ, *inter alia*, in the size and status of their economic development; countries also differ in their sources and scopes of competitiveness. Therefore, when analysing the competitiveness of countries with various attributes, one size does not fit all; different countries require different criteria”. The discussion above, shows that the existing models and framework have to be taken only as guidelines for studying comprehensively the driving forces for the growth and competitiveness of individual real estate industry in different market settings.

2.5 Other Modeling Approaches for Assessing Competitiveness

The existing literature provides a number of modeling approaches which are used for assessing industry's competitiveness. Several major approaches are discussed in the following sub-sections:

¹⁵⁶ See Li et al. (2009), p. 25.

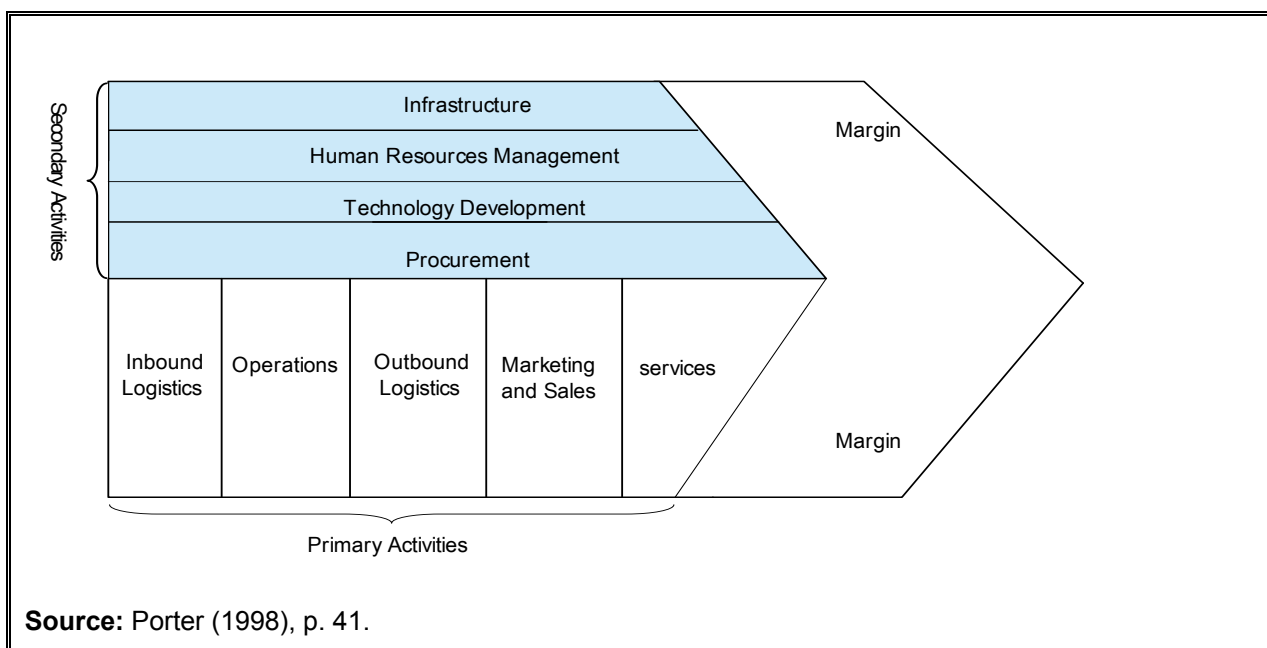
¹⁵⁷ See Flanagan et al. (2004), p. 9.

¹⁵⁸ See Cho et al. (2009), p. 84.

2.5.1 Value Chain Model (VCM)

Porter (1998)¹⁵⁹ defines an organisation's production process as a VCM in order to examine organisational competitiveness. Porter distinguishes between primary activities and support activities in the value chain. Primary activities are directly concerned with the creation or delivery of a product or service; the activities constitute inbound logistics, operations, outbound logistics, marketing and sales, and service. Each of these primary activities is linked to support activities which help to improve their effectiveness or efficiency. The support activities consist of firm infrastructure, human resource management, technology development, and procurement. Porter states that these activities are the main ones which help a firm to develop a competitive advantage and create shareholder value. He also argues that, understanding the determinants affecting a firm economical growth requires understanding how companies improve their productivity and which nations support or prevent productivity improvements. Value chain model suggests that, a firm's competitiveness comes from all these value chain activities. Thus each activity in the chain needs to be analysed in order to capture organisation's competitiveness. The Value Chain Model is presented in Figure 7.

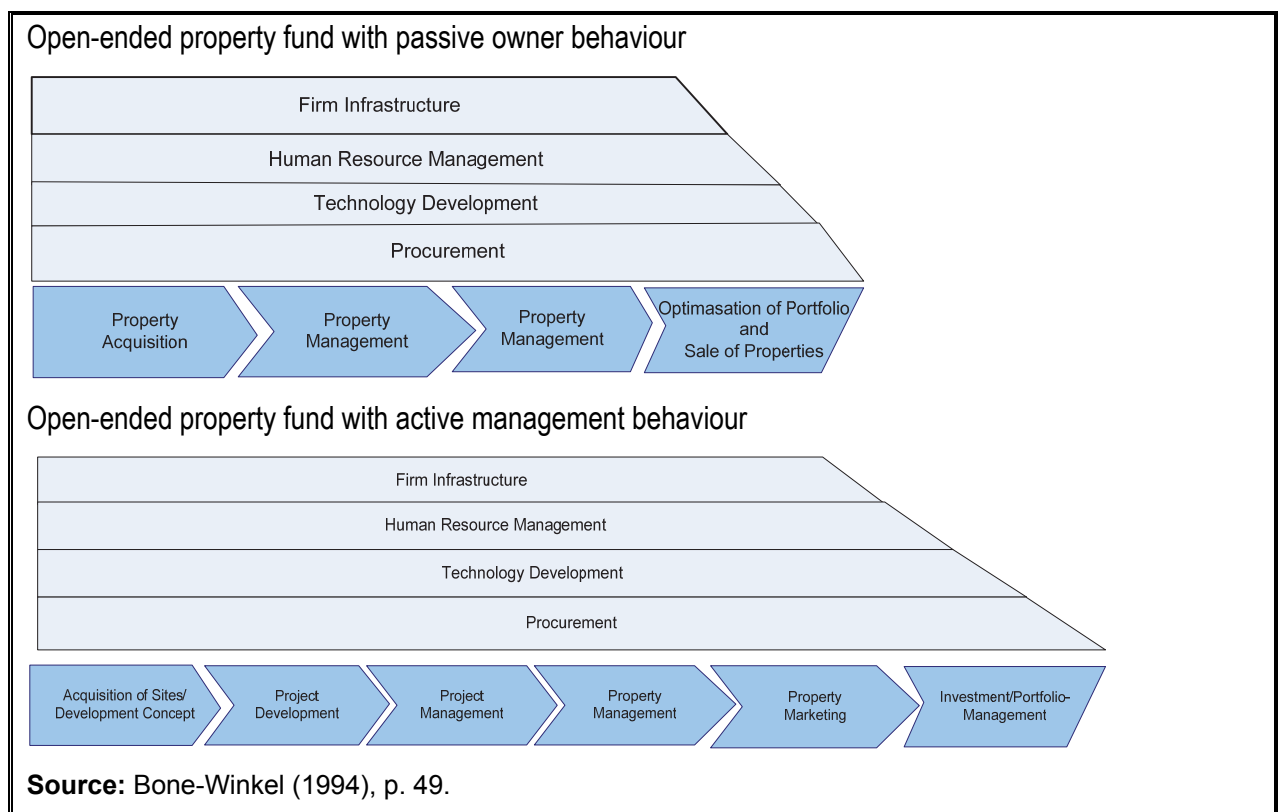
Figure 7: The Basic Model of Porter's Value Chain



¹⁵⁹ See Porter (1998), p. 41.

Bone-Winkel (1994)¹⁶⁰ uses Porter's Value Chain Model to gauge the activities of open-ended property funds in Germany. According to the author, the open-ended property funds were conceived as a chain of value-adding activities. In his study, the value chain analysis was assumed to give the direction on which property type of activities along the value chain a particular open-ended property fund should concentrate its assets and resources. Two investors (passive and active) were used to idealise value chains of open-ended property funds in the property management. The author finds out that, it is possible and fruitful to adapt the instruments for strategic management used by industrial companies to fit the needs of property companies (such as Porter's value chain model) due to the fact that, the future value of a property portfolio and the competitive position of a property company are not influenced by (static) criteria of risk and performance alone, but dynamic factors such as flexibility, productivity and competitive advantages also play a much more important role. The author modified Porter's value chain model to present the value chains of open ended property funds in Germany as it is shown in Figure 8.

Figure 8: Value Chains of Open-ended Property Funds Chain

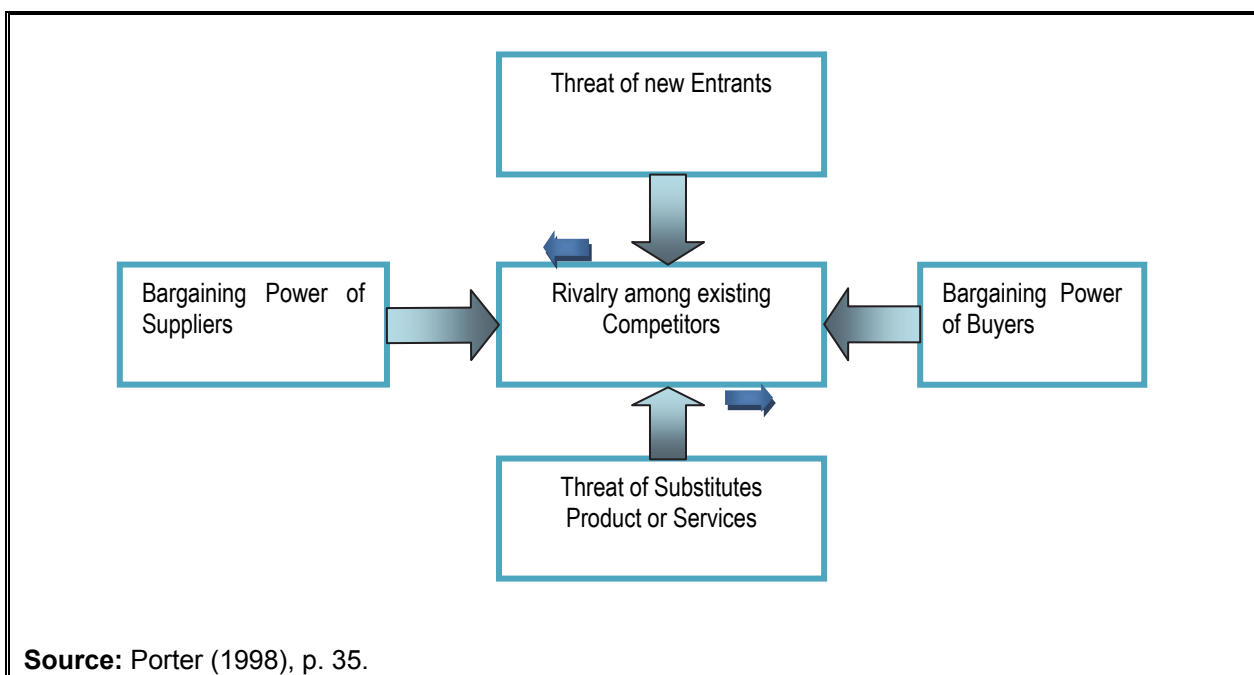


¹⁶⁰ See Bone-Winkel (1994), p. 49-50 and p. 54.

2.5.2 Porters Five Forces of Competitiveness

Porter's five forces model helps to analyse the attractiveness of a nation, industry or firm so as to assess the strength of a nation, industry or firm competitive position and the strength of the position that the nation, industry or firm is planning to attain. The model is trying to give a guideline to nation, industry or firm on how to take advantage of its strengths so as to improve and to compete efficiently and effectively. Porter's model of competitive forces assumes that, there are five competitive forces that identify the competitive power in a business situation. These five competitive forces include; rivalry among existing firms, bargaining power of suppliers, bargaining power of customers, threats of new entrants, and threats of substitute products. The five forces of competitiveness model is presented in Figure 9.

Figure 9: Five Forces of Competitiveness Model

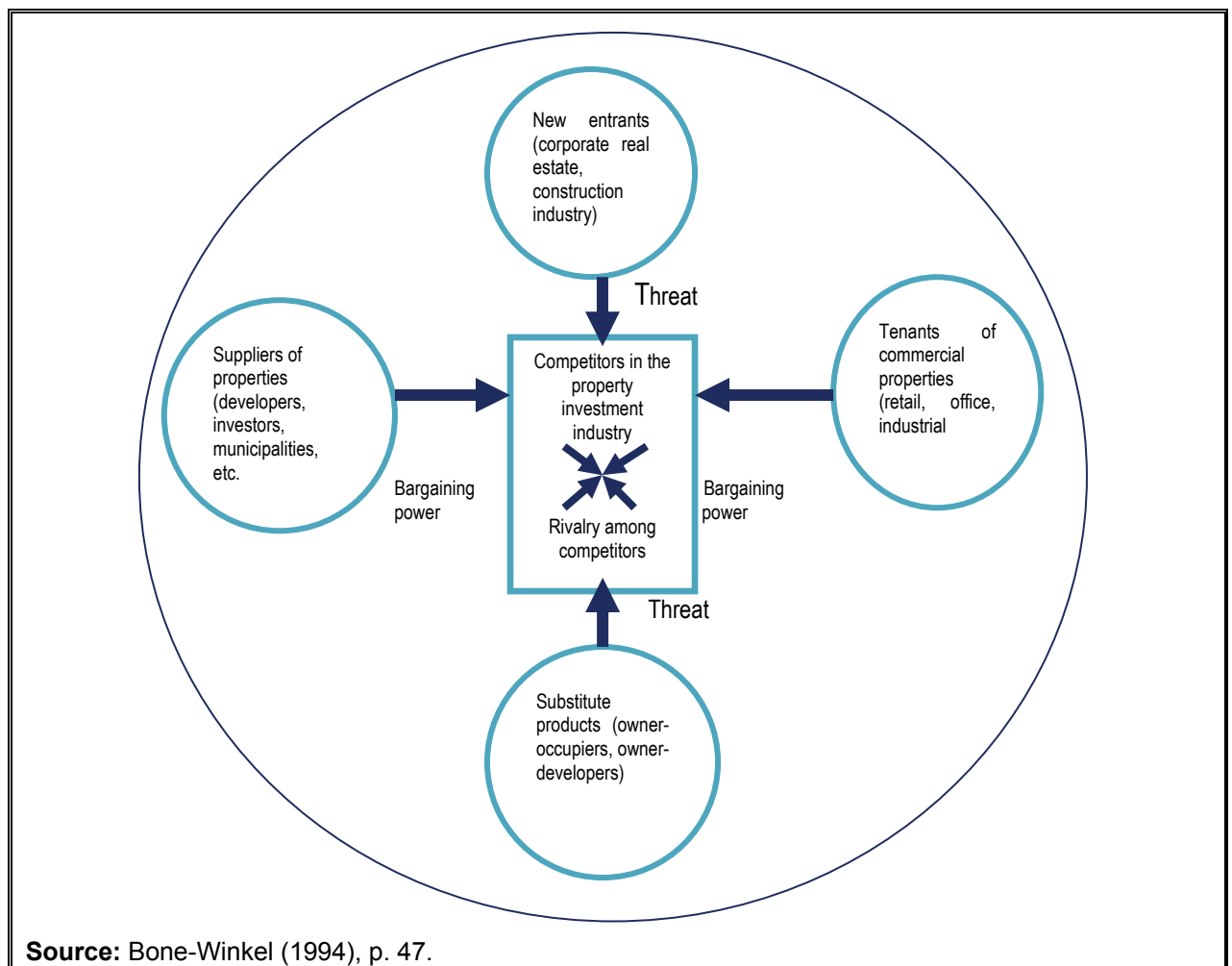


As for the other Porter's model (i.e. Value Chain), Bone-Winkel (1994)¹⁶¹ also uses five forces to illustrate the competitiveness of the property investment industry in Germany. The author assigns evaluation criteria of each competitive force and notes that, with the exception of the bargaining position of tenants renting property and the threat from substitute products, all these forces lead to a fierce competition within the industry.

¹⁶¹ See Bone-Winkel (1994), p. 46-47.

However, the author gives a prerequisite that, it is possible to develop concerted strategies for the improvement or defence of one's position by using the model when due weight is given to the relevant environment factors. This would enable the property investment funds to determine their position in the industry. The modified model of five competitive forces for the property investors is provided in Figure 10.

Figure 10: Competitive Forces Affecting Institutional Property Investors



2.5.3 Competence Pyramid Model (CPM)

Competence Pyramid Model (CPM) was introduced by Walsh and Linton (2001). The model is used for identification of competencies and capabilities present within a firm and those competencies and capabilities needed for development of competitive advantage in an industry. The model is applicable to both service and manufacturing industries. It considers organisational competence in four categories; fabrication and

assembly, materials, knowledge-based services, and knowledge-embedded services.¹⁶² Each category represents one of the faces of a pyramid. Each pyramid face includes two components; managerial capability at the pinnacle of the pyramid, and technical competence segment at the base of the pyramid.¹⁶³ The model is useful for dissecting the requirements of the industry-specific capabilities and competencies which are present in the firm, and for identifying technical competencies and managerial capabilities that are absent in the industry. The model also gives useful insights into which competencies or capabilities may assist a firm to be more competitive in one or more industries. The model was used to analyse the competitiveness of a service industry (distance education), and manufacturing industry known as mountain bikes.

2.5.4 Industrial Competitiveness Model (ICM)

Industrial competitiveness model (ICM) was developed by Oral (1993)¹⁶⁴ to measure industrial competitiveness. The level of relative competitiveness of the firm is expressed as a function of two major factors i.e. industrial mastery and cost superiority. Industrial mastery is measured by four variables (i.e. current position, current comparative position, potential position, and potential comparative position). Sustainable competitive advantage also depends on the firm's sourcing policies and input costs. Input rates are incorporated into a measure of competitiveness through an index called cost superiority. Cost superiority is implicitly reflecting the political-economic environment of the firm as well as that of the competitor. The model can provide an analytical framework for the analysis of industrial competitiveness and can yield useful insight for competitive strategy formulation. According to the author, ICM can be used to make three kinds of competitiveness analysis; market-oriented analysis, competitor-oriented analysis and global analysis. The model was used to measure the level of competitiveness of a glass company known as Turkish Glass Works (TGW) in foreign markets.

¹⁶² See Walsh/Linton (2001), p. 170.

¹⁶³ See Walsh/Linton (2001), p. 170; and Zhang et al. (2009), p. 233.

¹⁶⁴ See Oral (1993), p. 10-11 and p. 14-15.

2.5.5 Corporate Real Estate Model

Being members of the Corporate Real Estate and Asset Management (CREAM) research group at the University of Melbourne, Heywood and Kenley (2008a)¹⁶⁵ developed a theoretical model to depict the relationship between corporate real estate management (CREM) practices and organisational competitiveness. The model was developed from the strategic management, organisational competitiveness, and CRE literature. The model contains layers of connected strategic activity that provide sustainable competitive advantage derived from possible sources of sustainable competitive advantage. This framework connects practices, as organisational routines or operational strategies, through layers of strategic activity, and coordination to produce organisational competitiveness. The model's connections operate through two levels. The first level derives from the three sources of sustainable competitive advantage i.e. cost, innovation, and differentiation that constitute the organisation's overall competitive approach or strategy. Sustainable competitiveness is achieved when innovation, as a source of competitive advantage, operates in line with either of the other two sources of competitive advantage. The model's second level of connection is through the functional strategies (i. e. operations, marketing, financial, human resources, information and technology) that contribute to the sources of sustainable competitive advantage derived from the organisational capabilities created from the resources. At the bottom layer of the model, there are operational strategies which represent the CREM practices.

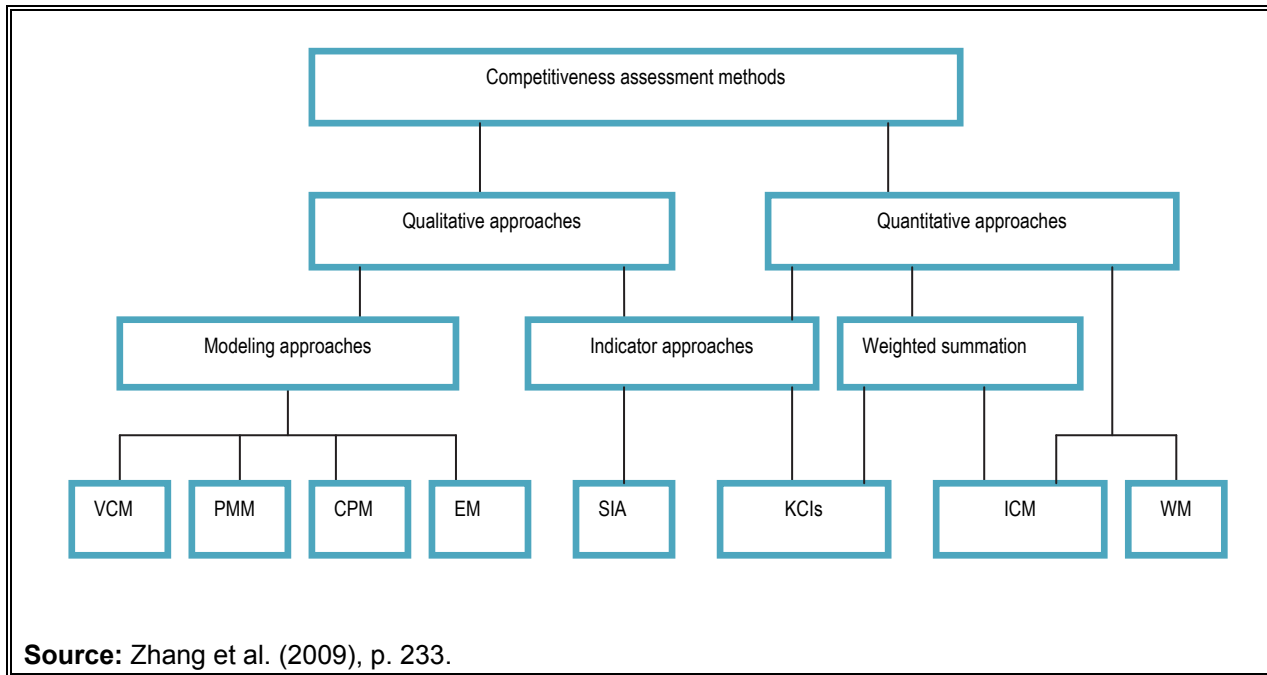
Heywood and Kenley (2008b)¹⁶⁶ carried out an evaluation study of the CRE model and found out that, the model was a useful framework for CREM to implement better alignment of its practices with the organisational objectives, to the organisation's greater competitive benefit. The model is useful to practitioners as it shows which categories of practices maximise CREM's competitive effect as the basis of strategic position from consistent alignment with sources of competitive advantage in an organisation.

¹⁶⁵ See Heywood/Kenley (2008a), p. 87 and p. 92-93.

¹⁶⁶ See Heywood/Kenley (2008b), p. 177.

On the other hand, Zhang et al. (2009)¹⁶⁷ review a number of existing strands of literature on modeling approaches of competitiveness. Six modeling approaches are used by the authors and are presented in a diagrammatical structure as seen in Figure 11.

Figure 11: Models for Assessing Industrial Competitiveness



Note: VCM=Value Chain Model; PMM=Portfolio Matrix Model; CPM=Competence Pyramid Model; EM=Enterprise Model; SIA=Single Indicator Approach; KCIs=Key Competitiveness Indicators; ICM=Industrial Competitiveness Model, WM=Weibull Model

Using the existing competitiveness modeling approaches (mentioned above) in different processes, Zhang et al. (2009)¹⁶⁸ developed a model-procedure for assessing Real Estate Enterprises (REEs) competitiveness. The model is a systematic flow-chart approach of five steps which develops an integrated analysis chain which incorporates the hands-on operations embodied in the existing practices. By referring to the model guidelines, a REE can use the model to identify the sources of its competitiveness. The model was used to assess the competitiveness of a Chinese real estate firm known as China Vanke.

¹⁶⁷ See Zhang et al. (2009), p. 233.

¹⁶⁸ See Zhang et al. (2009), p. 239.

2.6 A Review and Analysis of Poorvu's Model

On the other hand, Poorvu's model is used in this study to study the framework within which real estate operates in Tanzania. Poorvu and Cruikshank (1999) provide guidelines on how to increase chances of being successful in the real estate business. The authors describe the real estate industry using four variables namely; properties, capital markets, players, and external environment. They consider these to be the main variables having impact on the success of the real estate industry. The variables which are also presented in a form of "*Diamond*" affect each other more or less profoundly throughout. The four variables are described as follows:

Properties sit within markets that are mostly local and fragmented and are subject to more or less intensive controls in the larger context of a litigious society. The property development and investment are to a large extent, affected by the rest of the variables namely players, capital market and external environment. *The capital markets* operate independently of the property world, but they affect what is built and how it is priced. *Players* are directly or indirectly the change agents. These are the people who connect the properties and the capital markets. *External environment* includes all outside world influences that have impact on the property industry. External environment impacts property industry in various ways. The external environment is not within the control of the property industry itself; it can take forms such as tax policy, regulations, demographic trends, new technologies, unexpected consumer tastes, etc. The Poorvu's variables which affect the real estate game are shown in Figure 12.

The key variables provided by Poorvu have been widely discussed in different strands of literature. For instance, Rottke (2008)¹⁶⁹ notes that, all over the world, real estate markets and capital markets grow together. The author argues further that, although the physical dimensions is and will always be the basis for successful dealing with real estate, the financial dimensions is on the increase and can hardly be negated in a more global market place. Geltner et al. (2007)¹⁷⁰ insist that, a more comprehensive view of property investment considers both space and capital market, real estate assets markets must be viewed as part of large capital market. Baum (2009)¹⁷¹

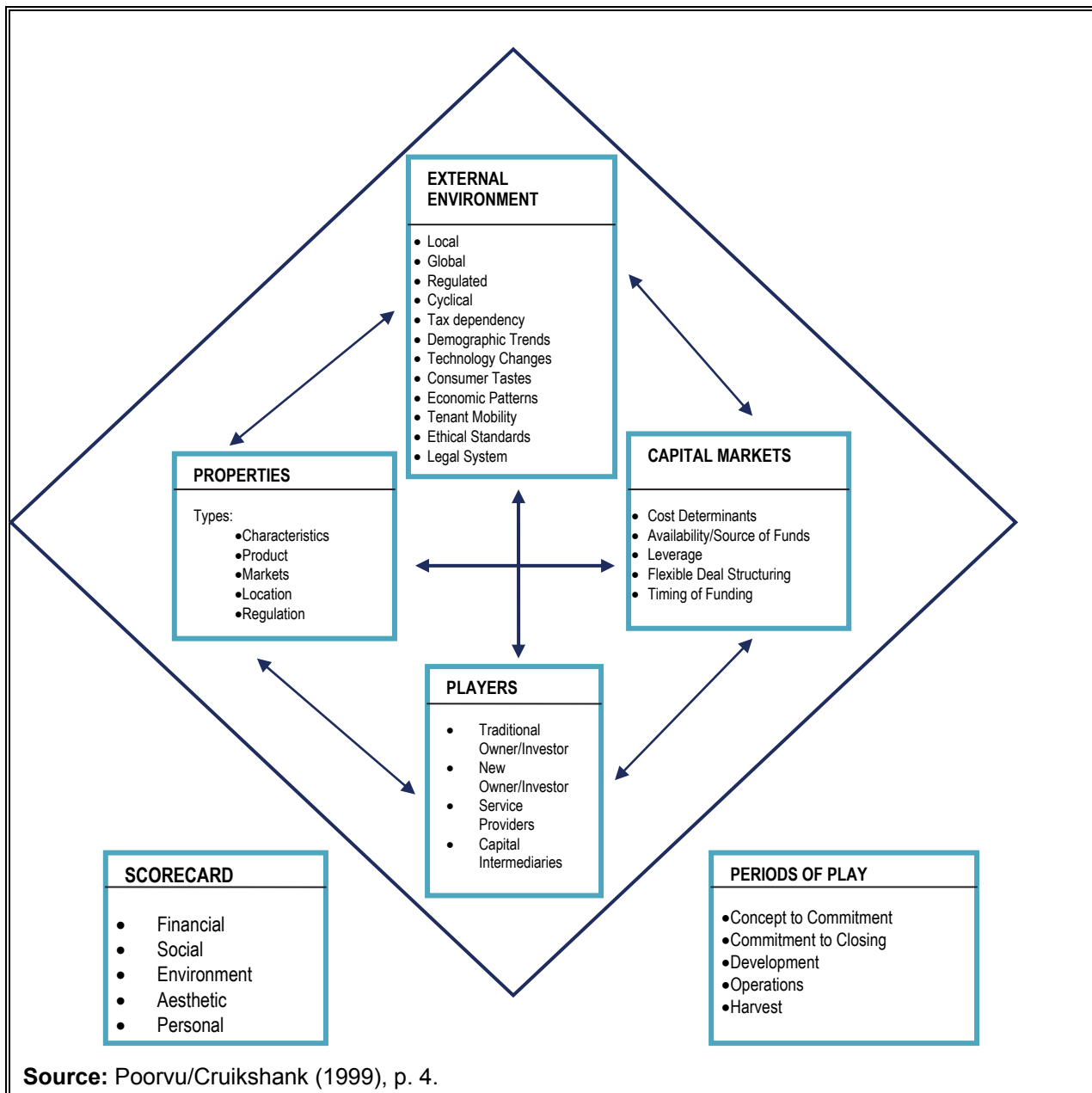
¹⁶⁹ See Rottke (2008), p. 26.

¹⁷⁰ See Geltner et al. (2007), p. 11.

¹⁷¹ See Baum (2009), p. 5.

provides that, the performance of the real property is linked to the capital markets. DiPasquale and Wheaton (1996)¹⁷² link the real estate market with the capital market and demonstrate how rents in the property market are translated into asset prices in the asset market. Another study provides that, capital markets play important roles as drivers of both pricing and the supply pipeline of new buildings.¹⁷³

Figure 12: Key Variables which Affect the Real Estate Game



¹⁷² See DiPasquale/Wheaton (1996), p. 7 and p. 21.

¹⁷³ See PREA (2010), p.41.

Regarding the external environment; Kvedaraviciene (2009)¹⁷⁴ notes that, real estate market is traditionally being analysed by certain overview of the major market parameters i.e. supply and demand instead of analysing it as a system which covers more than the above mentioned aspects. The author further provides that, real estate market is an open system which is closely related to external environment. For instance, real property depends on demand factors (such as population, income level, financial system, etc.) and also on supply factors (such as availability of land, labor, construction activity, financing terms, etc). Therefore, the external environment impacts real property prices, values and activity of market participants; which means, real property market is affected by changes in macro-system too.

Different authors have attempted to mention the aspects of the external environment which impact real estate market, or general business undertakings market. Kvedaraviciene (2009)¹⁷⁵ mentions national or world economy, political situation, climate change, and demographic dynamics as external environment aspects which have an impact on real property markets. In the course of describing strategies of entering real estate market in today's economy, Bryan (2011)¹⁷⁶ uses PEST analysis i.e. political factors, economical factors, social factors, and technological factors, to show how each one impacts real estate market. It should be noted that PEST¹⁷⁷ is within the external environment to the industry's market operations. PEST/PESTLE is another analysis technique which adds further possibilities for understanding an industry and provides impression for the political, economic, sociological,

¹⁷⁴ See Kvedaraviciene (2009), p. 1 and p. 4.

¹⁷⁵ See Kvedaraviciene (2009), p. 4.

¹⁷⁶ See Bryan (2011), p. 29.

¹⁷⁷ Other literature refers to it as PESTLE (i.e. political, economical, sociological, technological, legal and environmental factors). Political factors, are how and to what degree a government intervenes in the economy, these include tax policy, labour law, environmental law, trade restrictions, tariffs, infrastructure, and political stability. Economic factors relate to economic growth, interest rates, exchange rates and the inflation rate. Social factors relate to the cultural aspects and include health consciousness, population growth rate, age distribution, education, career attitudes and emphasis on safety. Technological factors relate to technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. Environmental factors relate to ecological and environmental aspects such as weather, climate, and climate change. Legal factors relate to discrimination law, consumer law, antitrust law, employment law, and health and safety law.

technological, legal and environmental. Items which are in PEST/PESTLE are amongst the factors which enhance competitiveness of the industry. Mar Iman (2006)¹⁷⁸ notes that, a property's company external environment (i.e. immediate macro environment (real estate market/industry)), and outer macro environment (which consists of demographic, economic, physical, technological, and governmental environments) pose challenges on the real property marketing management.

Players constitute people, institutions or real estate analysts who facilitate the whole process of property development/investment in the property market in different ways. They include real estate developers, landlords, construction companies, builders, real estate agents, tenants, buyers, real estate professionals, universities offering real estate related courses, financial institutions and the government with its institutions. International real estate consultancy firms and institutions such as Jones Lang LaSalle, CBRE, Knight Frank, Royal Institution of Chartered Surveyors (RICS), Investment Property Databank (IPD) etc. are also regarded to be players by taking the important role of conducting property market research which guides property developers and investors on decisions making in a particular market. Further discussion on Poorvu's model is provided in Chapter Five.

¹⁷⁸ See Mar Iman (2006), p. 108.

3 The Tanzania Real Estate Industry

3.1 Introduction

The environment within which real estate development and investment is undertaken has a great implication on performance. The prevailing real estate environment has impact on the growth and competitiveness of the sector in any country. This chapter looks into the real estate industry in Tanzania, pointing out the prevailing business environment and issues which have impact on the sector's growth. The chapter discusses the economic environment (macro economy as well as real estate in the economy), institutional framework (legal, fiscal, political, and financial), land issues (i.e. acquisition, ownership, land and property prices, costs and taxes on real estate etc.), and the impact of other external environment aspects such as interest rates, tax policies and the state of the country's infrastructure on the real estate development and investment. The chapter also looks at Tanzania real estate industry with reference to Poorvu's Model. Under Poorvu's Model, the real property is discussed in relation to the other three (3) key variables which are capital markets, players, and external environment to illustrate the existing situation in Tanzania. The discussion also shows how the variables affect each other in real estate development and investment activities.

3.2 Background information on Tanzania¹⁷⁹

3.2.1 Geography and Administration

The United Republic of Tanzania also frequently referred to as Tanzania in this study, is part of the East African Community (EAC) and consists of two formerly independent states i.e. Tanganyika (now known as Tanzania Mainland) and Zanzibar. The two states united in 1964. Tanzania has an area of 945,087 km² out of which 61,500 km² is water. Tanzania Mainland is divided into 25 administrative regions (refer to Figure 14) and 133 local government authorities; which comprise 27 urban authorities (i.e. 4 city councils, 18 municipal councils, 5 town councils), 106 district local authorities, and some 10,397 registered villages. To the North, Tanzania is bordered by Kenya and

¹⁷⁹ This section is largely based on the information obtained from Tanzania Bureau of Statistics publications; Venugopal/Yilmaz (2010), p. 216-217; PMORALG (2011); see also Rothenberger (2010), p. 86.

Uganda, to the West by Rwanda, Burundi and the Democratic Republic of Congo and to the South by Zambia, Malawi and Mozambique. The country's eastern border lies on the Indian Ocean. The official capital city is Dodoma although Dar es Salaam, which situated on the coast of the Indian Ocean, remains to be by far the country's largest urban and economic centre. Tanzania's official currency is Shilling (TZS), while the US \$ quasi represents a parallel currency system especially in those regions with substantial touristic traffic¹⁸⁰ (for more details on the trend of Tanzania Shilling against US \$, refer to Table 5). The official language is Kiswahili whilst English is also widely used in business communication. Policies and legislation related to land and natural resources differ between the Mainland and Zanzibar. This study is confined to Tanzania Mainland.

Table 5: The Trend of Exchange Rates of Tanzania Shilling against US Dollar from 1999-2012

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Rate	733.2	802.3	871.5	966.9	1,040.8	1,092.0	1,130.8	1,252.7	1,250.1	1,207.1	1,326.2	1,427.0	1,557.4	1,588

Source: BoT (2010a), p. 280; BoT (2011a), p. 268; BoT (2012a), p. 23 and p. 51.

Note: *The exchange rate was for April 2012; See BoT (2012a), p.23.

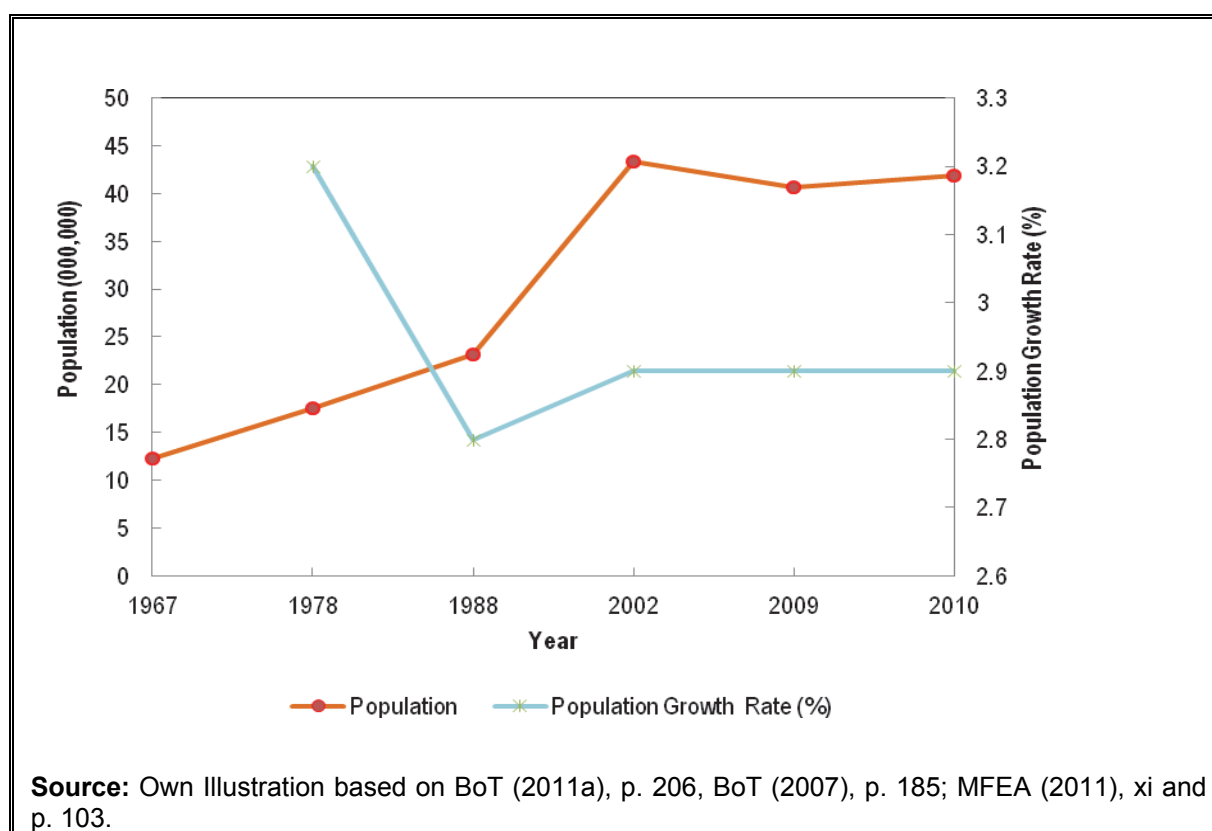
3.2.2 Demographic Trends

Since Tanzania achieved its independence in 1961, the population has grown from 12.3 million people in the first post-independence census in 1967 to 34.4 million people counted in the census held in 2002. The population almost tripled between 1967 and 2002 a period of 35 years. The population was 40.7 million in 2009 and 41.9 million people in 2010.¹⁸¹ In 2012, the population had reached 45 million. Figure 13 shows the trend of population growth from 1967-2010.

¹⁸⁰ In 1990 the exchange rate (TZS/US \$) was TZS 195.1 for US \$ 1. In 2000 the rate depreciated to TZS 802.3 for US \$ 1. In 2002 the exchange rate depreciated further to TZS 966.9 for US \$ 1. In 2003, the exchange rate continued to depreciate and it reached TZS 1,040.8 for US \$ 1. The Shilling depreciated further to US dollar to TZS 1,427.0 for US \$ 1 in 2010. See BoT (2010), p. 280; BoT (2011a), p. 268. The rate was TZS 1,557.4 for US \$ 1 in 2011 and TZS 1,588 for US \$ 1 as at the end of April 2012. See the trend of Tanzanian Shilling against US \$ in Table 5 above.

¹⁸¹ See MFEA (2011), p. xi, p. 1 and p. 103; also see MFEA (2010), p. 100.

Figure 13: The Trend of Population and Population Growth Rate between 1967 and 2010



Note: Population growth rate for 2009 and 2010 are estimated based on the population growth rate of 2.9 percent per annum from the Population and Housing Census of 2002.

Tanzania, like most of the developing countries has faced and continues to face high urbanisation rates amidst slow economic growth rates.¹⁸² For instance, the urban population for the country increased from 13.8% in 1978 to 18.8% in 1988.¹⁸³ The percentage of the urban population in 2007 was 25%.¹⁸⁴ Until 2010, 26.3% (around 11 million people) of the total population was living in urban areas.¹⁸⁵ Dar es Salaam alone, the largest urban area in the country and the leading economic city, is said to receive between 100,000 to 300,000 immigrants a year.¹⁸⁶ Projections show that Tanzania will have a population about 57 million by 2030 of which about 33 million or 58.2% will be living in urban areas.¹⁸⁷

¹⁸² See UN-HABITAT (2010), p. 43.

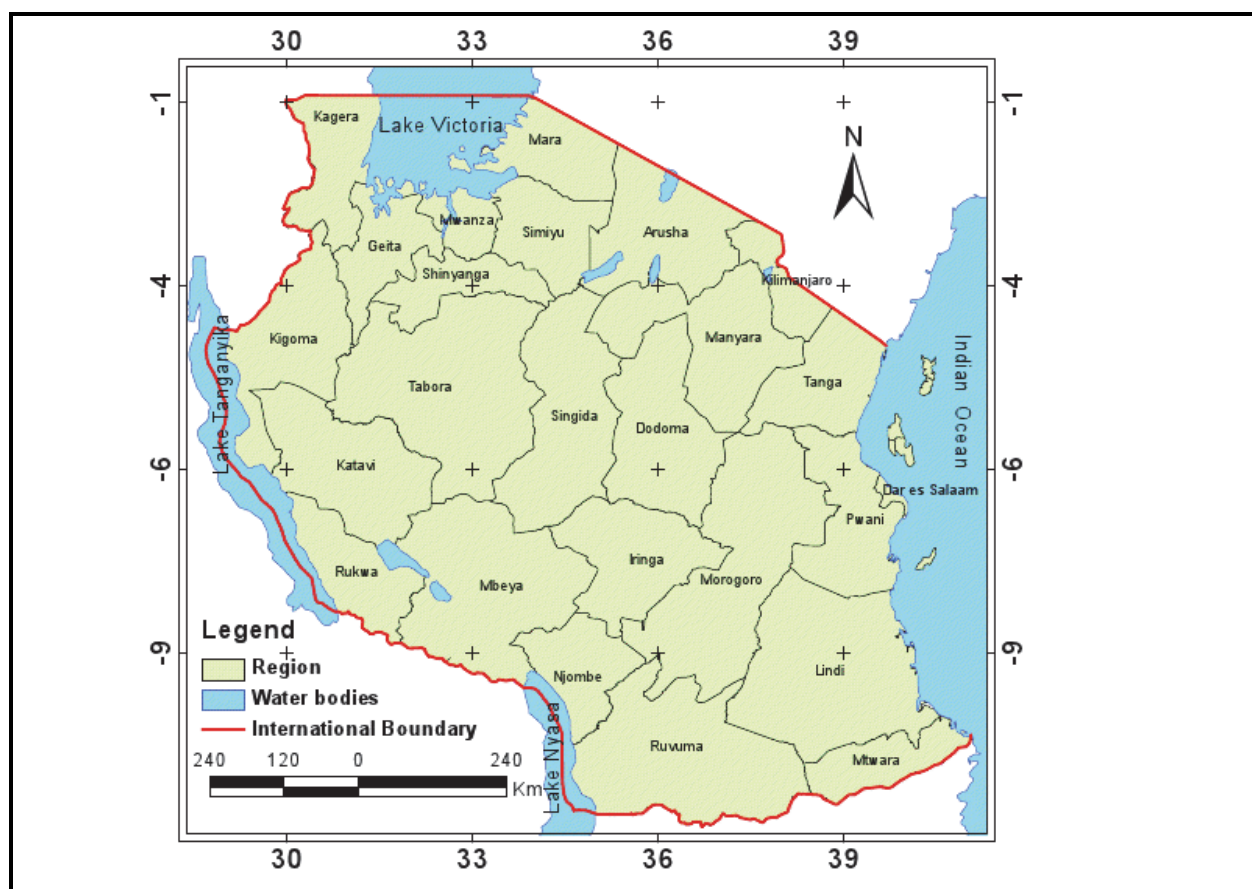
¹⁸³ See 1978 and 1988 Population Census in Tanzania.

¹⁸⁴ See World Bank (2009), p. 40.

¹⁸⁵ See MFEA (2011), p. 103.

¹⁸⁶ See Kironde (2009), p. 5.

¹⁸⁷ See UN-HABITAT (2005a), p. 189 and p. 192.

Figure 14: Map of Tanzania

3.2.3 The Economy

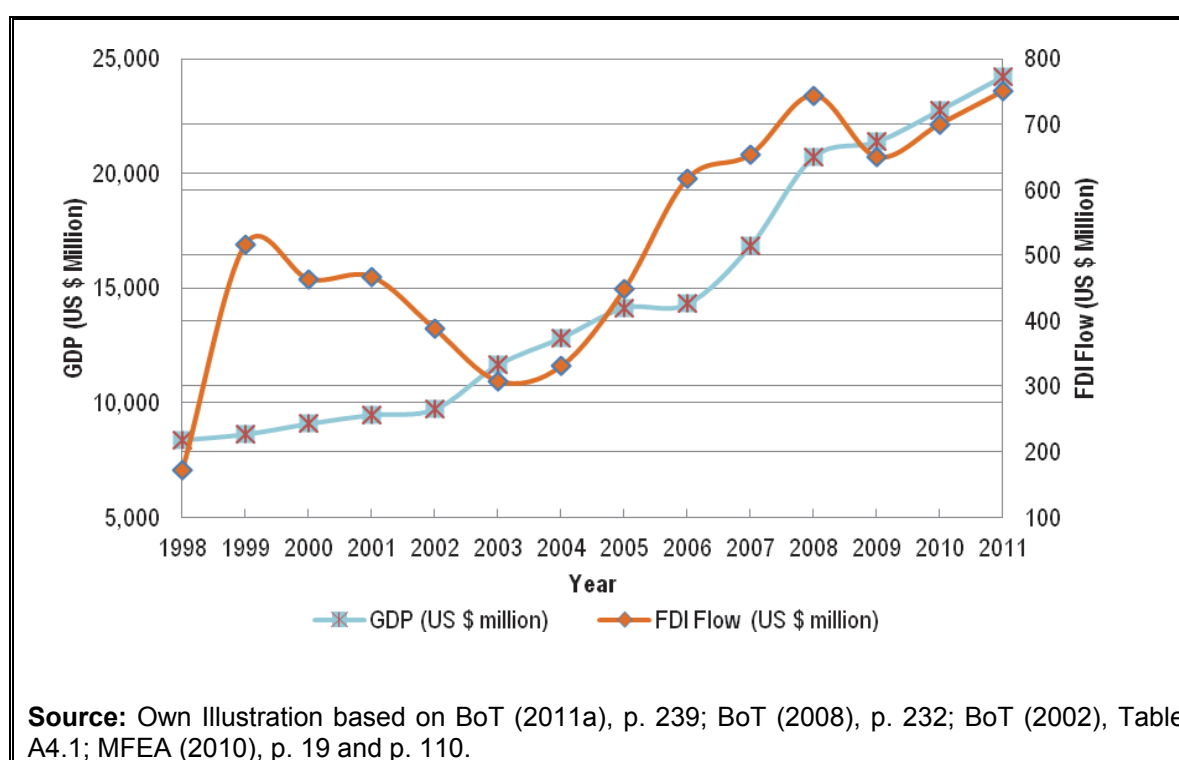
3.2.3.1 GDP and FDI Growth

The economy of Tanzania continues to maintain a good track record of growth since the government started implementing macroeconomic and structural reforms in the mid 1980s. These reforms have been very instrumental in improving the economy and creating a conducive environment for private sector growth. During the reform period, many private business organisations have been established. In addition to that, a number of laws, policies and regulations have been introduced to improve business environment. Likewise, social institutions have also been changing with the change in the economic, legal and political environment.

Owing to the consistent implementation of privatisation measures and economic reforms, Tanzania has ever since been able to attract a considerable amount of donor

agencies and foreign investors.¹⁸⁸ Tanzania is fast becoming a foreign direct investment (FDI) front runner in Africa.¹⁸⁹ Net FDI as a percentage of FDI for Tanzania increased from 0.3% in 1992 to 2.1% in 1998, compared with an average increase of 0.1% and 1.1% respectively for sub-Saharan Africa.¹⁹⁰ As economic reforms peaked, the country received FDI amounting to US \$ 150.86 million in 1995; since then the volume of FDI has been increasing, reaching US \$ 744 million in 2008.¹⁹¹ However, according to TIC¹⁹² there was a decline of about 10% in the year 2009 due to the global economic slowdown. The FDI in 2009 was US \$ 645 million, FDI flow increase by 8.5% in 2010. FDI for 2011 was US \$ 750 million.¹⁹³ The trend of GDP growth and FDI flow as percentage of GDP from 1998 to 2011 is as shown in Figure 15.

Figure 15: Trend of GDP Growth and FDI Flow as percentage of GDP from 1998-2011



¹⁸⁸ See Rothenberger (2010), p. 90; Musiba (2005), p. 4; and see UNCTAD/ICC (2005), p. 26.

¹⁸⁹ See UN (2002), p. 1 and p. 3; and see Kweka/Mboya (2004), p. 32.

¹⁹⁰ See World Bank (2001), p. 28.

¹⁹¹ See US Department of State (2010); MFEA (2011), p. 110; MFEA (2010), p. 107; MFEA (2008b), p. 98; Reuters Africa, 17th September (2009); also see The Citizen, 5th May (2010a).

¹⁹² TIC Executive Director at the launch of U.N report in Dar es Salaam; reported by Reuters Africa on 17th September (2009).

¹⁹³ See Reuters Africa (2010).

FDI as a proportion of GDP was 19.5 % in 1998. The rate increased to 41.1 % in 2003. The percentage growth of FDI to GDP increased significantly between 1995 and 2001. The percentage growth was more than 3 times in the year 2000 compared to the year 1998. The growth decreased sharply to 2.5% from 2002 to 2003. FDI contribution to GDP recorded a negative growth in 2004 to 2005. The growth increased again although at a decreasing rate of 2.9% and 1.4% in 2006 and 2007 respectively. The largest sector for FDI is mining and the largest single industry is gold.¹⁹⁴ The share of FDI in finance, insurance and real estate sector was US \$ 14.9 million (2.8%), US \$ 3.5 million (1.3%) and US \$ 8.9 million (2%) in 1999, 2000 and 2001 respectively.¹⁹⁵ The source of FDI flows into Tanzania, among other countries, comes from the United Kingdom (UK), Canada, Mauritius, South Africa, Kuwait, United Arab Emirates, Norway, Kenya, United States of America (USA) and Australia.¹⁹⁶ There is also a substantial number of investments from Germany, Holland, Italy, Switzerland and Sweden.¹⁹⁷ Tanzania has bilateral treaties for the promotion and protection of FDI with a number of countries including Germany, Sweden, Switzerland, Netherlands, Italy, Denmark, Sweden, Finland, UK, Canada, Mauritius, Republic of Korea, India, South Africa, Zambia, Zimbabwe and Egypt.¹⁹⁸ Tanzania is also signatory to Double Taxation Treaty (DTT) with Denmark, India, Italy, Norway, Sweden, Kenya, Uganda, Zambia and Finland aiming at providing competitive fiscal regime on trade.¹⁹⁹

GDP growth per annum has almost doubled over the last decade i.e. from 4.1% in 1998 to 7.4% in 2008.²⁰⁰ This is high for Tanzania and comparable to the performance of fastest growing economies in sub-Saharan Africa.²⁰¹ Real GDP growth for 2009 however slowed to around 6.0% mainly due to the impact of the global financial and economic crisis. The rate increased to 7.0% in 2010. GDP was 6.4% and 6.8% for 2011 and 2012 respectively.²⁰² There is also impressive macroeconomic stability as the country managed to lower the inflation rate at a single digit levels since 2000, with the exception in 2008 and 2009 where the country had double digit inflation rate of

¹⁹⁴ See UN (2002), p. 6; TIC (2004), p. 19; also see Kweka/Mboya (2004), p. 33.

¹⁹⁵ See TIC (2004), p. 24; and Kweka/Mboya (2004), p. 35.

¹⁹⁶ See Tanzania Investment Report (2009), p. 29.

¹⁹⁷ See TIC (2004), p. 20.

¹⁹⁸ See OECD (2005), p. 49; Sinda (2010), p. 27-28; also see UNCTAD/ICC (2005), p. 15.

¹⁹⁹ See TIC website under: <http://www.tic.co.tz>

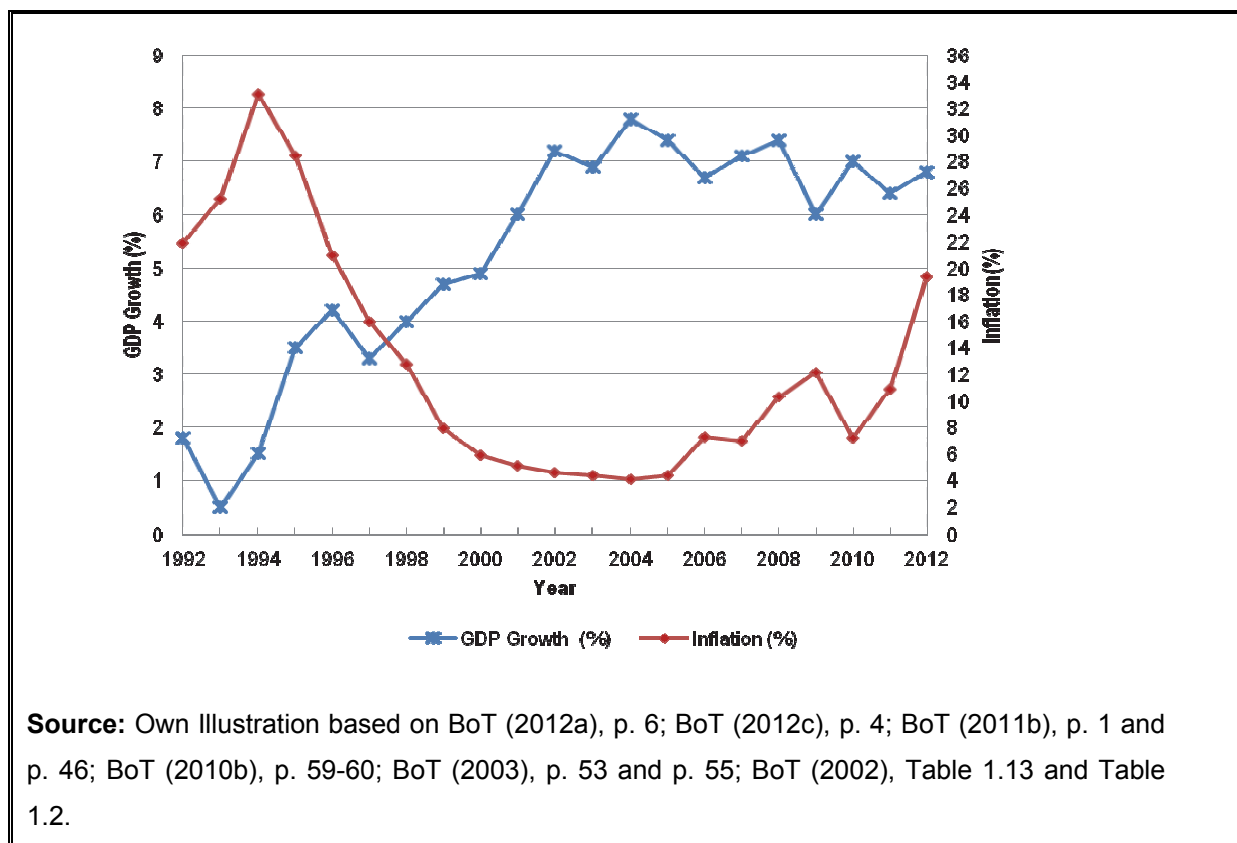
²⁰⁰ See BoT (2009a), p.1; BoT (2010b), p. 6; also see MFEA (2003), p.17.

²⁰¹ See IMF (2009), p. 66.

²⁰² See BoT (2012a), p. 6; BoT (2012c), p. 41; BoT (2010a), p. 1; also see MFEA (2011), p. 1.

10.3% and 12.1% respectively. The country resumed the single digit rate of 7.2% in 2010. However, for the year ending June 2011, inflation depicted an upward trend reaching 10.9%.²⁰³ In March 2012, inflation rate has skyrocketed to approximately 19.4%.²⁰⁴ Figure 16 shows the trend of GDP growth and inflation from 1992-2012.

Figure 16: The Trend of GDP growth and Inflation from 1992 to 2012



3.2.3.2 GDP Growth by Sector

Economic sectors that have substantial contribution to GDP include agriculture, manufacturing, construction, and transportation and communication. Tanzania's economy depends heavily on agriculture. The sector accounts for more than one-quarter of GDP. The sector provides 85% of exports (raw and processed)²⁰⁵ and employs about 80% of the work force.²⁰⁶ Analysis of sectoral contributions to Tanzania GDP since 1997 indicates that some sectors such as manufacturing, construction, transport and communication have had significant contribution to the overall GDP growth. However, during the same period, real estate is one of the sectors that have

²⁰³ See BoT (2011b), p. 9.

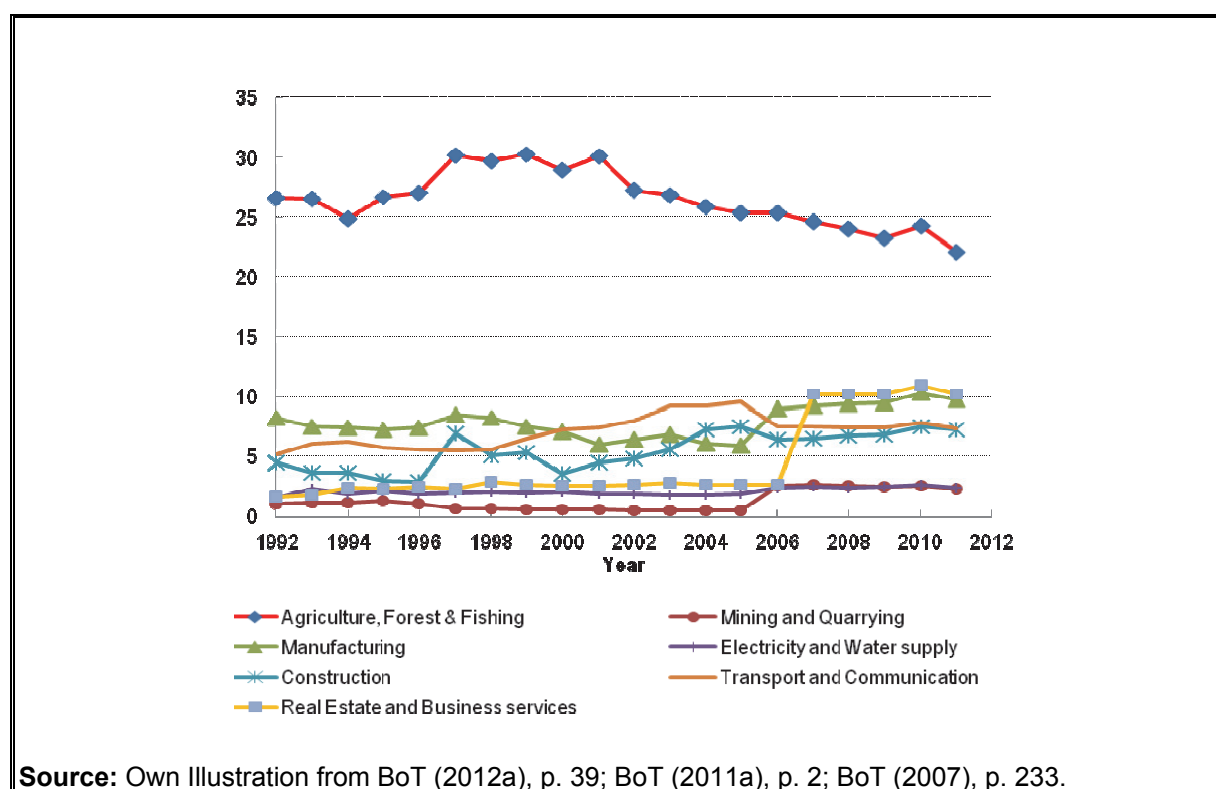
²⁰⁴ See BoT (2012c), p. 4.

²⁰⁵ See World Bank (2001), p. 5.

²⁰⁶ See World Bank (2009), p. 9; World Bank (2001), p. 4; Chachage (2010), p. 6.

recorded a comparatively low contribution to GDP. It should also be noted that, starting from 2007-to-date, the figure for real estate has been combined with business services (i.e. real estate and business services). This makes it difficult to isolate the contribution of real estate alone to the GDP. The percentage share of some economic sectors in the GDP from 1992-2011 is shown in Figure 17.

Figure 17: The Percentage Share of Some Economic Sectors in the GDP from 1992-2011



Despite the favourable macro-economic outlook, Tanzania's economy is still in a precarious state and its population remains poverty-stricken.²⁰⁷ Between 1990 and 2001, the proportion of people living below the national poverty line²⁰⁸ fell slightly from 39% to 36%.²⁰⁹ In 2007, people living below the national poverty line were about 34%; the rate is expected to decline to 19.3% in 2015.²¹⁰ In addition to that, almost 98% of households spend less than TZS 58,000 per month per adult on food and basic

²⁰⁷ See Rothenberger (2010), p. 91.

²⁰⁸ The national poverty line is set using the "cost of basic needs" approach, which normally refers to the ability of paying for the cost of food and other essential needs such as clothing, housing, water and health by poor households. To allow cross country comparisons, the one-dollar-a-day standard is commonly referred to as the poverty line; see for instance MFEA (2008a), p. 3-4.

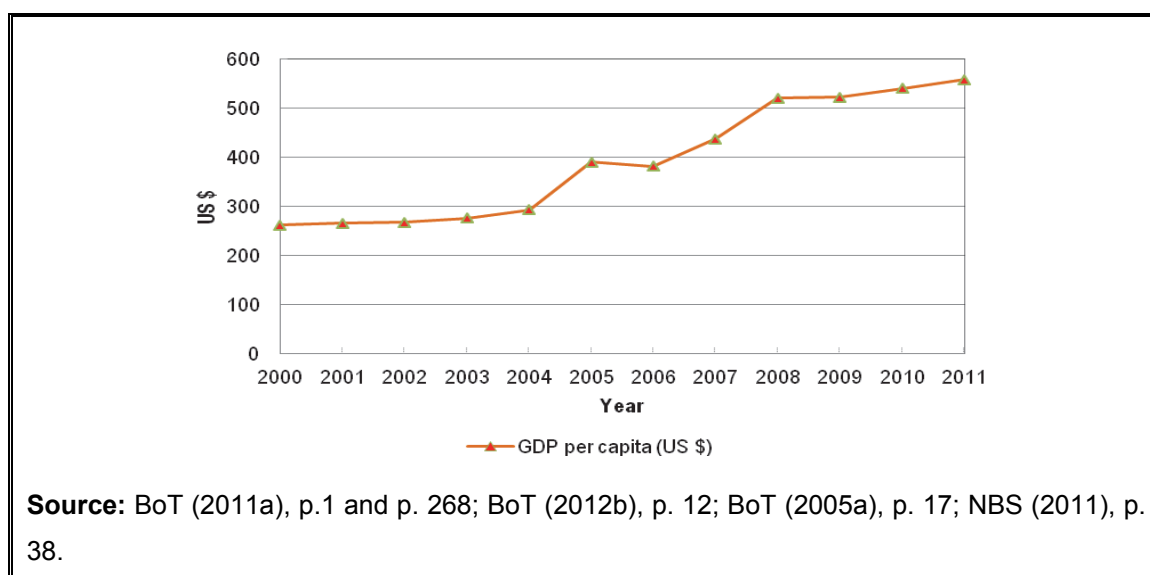
²⁰⁹ See UNDP (2005), p. 66; also see MFEA (2008a), p. 4.

²¹⁰ See MFEA (2008a), p. 4.

necessities.²¹¹ Figure 18 shows the trend of the country per capita income from 2000-2011.

The country however continues to make good progress not only towards economic growth but also in poverty eradication. In addressing poverty, some studies²¹² point out some poverty reduction efforts by the government. At the national level, poverty reduction strategies include introduction and implementation of social and economic policies and sustaining macroeconomic, structural and institutional reforms stability. There are also a number of development agenda, policies initiatives and framework such as Tanzania's National Development Vision 2025, the National Poverty Eradication Strategy (NPES), Tanzania Assistance Strategy (TAS) and National Strategy for Growth and Reduction of Poverty (NSGRP/MKUKUTA).²¹³ The regional strategies include being a member of economic groupings such as the East African Community (EAC), the Southern African Development Community (SADC) and the Cross Border Initiative (CBI).²¹⁴ Internationally, the country is also making progress towards achieving targets for reducing poverty. The country is committed for instance to Millennium Development Goals (MDGs), Agenda 21, Poverty Reduction Growth Facility and the Poverty Structural Adjustment Credit.

Figure 18: The Trend of Per Capita Income Growth from 2000-2011



²¹¹ See MFEA (2009), p. 150 and p. 169.

²¹² See Kweka/Mboya (2004), p. 8; MFEA (2008a), p. 37-38; and see URT (2000), p. 3.

²¹³ MKUKUTA is a Swahili acronym for "Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Tanzania".

²¹⁴ CBI changed its name in 2000 to Regional Integration Facilitation Forum (RIFF).

3.2.3.3 Labour Market in Tanzania²¹⁵

Access to skilled labour is a key priority for companies competing in African countries. The government of Tanzania has made a long-term commitment to develop a pool of well-trained and educated specialists. So as to attain the desired level of competitiveness, the government's budget to the education keeps on increasing each year.²¹⁶ Labour market data is helpful for monitoring the office property market, since the amount of occupied office space can ultimately be derived from the number of office workers.²¹⁷ In 2006, Tanzania mainland carried out labour force survey, amongst other things the survey covered the general labour force. The 2006 Integrated Labour Force Survey (ILFS) was the fourth comprehensive survey in mainland Tanzania since independence. Other recent ILFS were carried out in 1990/91, and 2000/01.

The results of the 2006 Integrated Labour Force Survey revealed that, the estimated labour force²¹⁸ for mainland Tanzania was about 18,821,525 (people aged 15 years and above) out of that, 9,054,172 (48.1%) were males and 9,767,354 (51.9%) were females. Dar es Salaam has 11%, other urban areas have 16.3% and rural areas have 72.7% of the total labour force. More than three-quarters (88.3%) of the total labour force were employed. According to Tanzania definition of employment,²¹⁹ total unemployment rate was 11.7% in 2006 compared to 12.9% in 2001. Unemployment rate was 10.7% and 12.6% for females and males respectively. Distribution of unemployment geographically shows that, Dar es Salaam has 31.5%, other urban areas have 16.5% and rural areas have 7.5%. In terms of age group, labour force aged 35-64 years have the highest employment ratio (86.7%) followed by those aged 25-34 (85.9%). On the other hand, total underemployment rate was 7.8%, out of which 8.2% were males and 7.4% were females. Facts about labour force characteristics in Tanzania are provided in Table 6.

²¹⁵ See NBS (2001), p.1 and p. 6-7; NBS (2007), p. 11, p. 18, p. 21-25, p. 36-37, p. 57 and p. 64; ILO (2010), p. 48-49; Kerr (2011), p. 8; Assen/Jensen (2003), p. 8 and p. 42; Kondylis/Manacorda (2006), p. 6-7 and p. 10-15.

²¹⁶ See TIC website under: <http://www.tic.co.tz/>.

²¹⁷ See Voigtlaender (2012), p. 6.

²¹⁸ Labour force is also known economically active population; is that population of the specified age group (10 or 15 years and above, but with no upper age cut-off), see NBS (2007), p. 17.

²¹⁹ A definition was adopted by the National Bureau of Statistics of Tanzania, the definition excludes from employment all self-employed persons who are temporarily absent from work during the reference period due to economic reasons such as no suitable land for cultivation, off-season and lack of capital. Based on the International definition, unemployment is 4.7% in 2006 compared to 5% in 2001; see Table 6 below.

Table 6: Labour Force Characteristics in Tanzania

Indicator	<u>National Definition</u>			<u>Standard Definition</u>		
	1990/91	2000/01	2006	1990/91	2000/01	2006
Employment-to-population ratio (15-64 years), in %	—	78.0	80.7	83.5	85.3	87.1
Male	—	80.0	82.0	85.9	86.7	89.1
Female	—	76.1	79.5	81.2	84.0	85.3
Urban areas	—	54.6	68.2	71.0	68.7	76.9
Rural areas	—	85.1	85.9	86.5	90.4	91.3
Unemployment rate, in %	—	13.0	11.7	3.4	5.0	4.7
Male	—	11.6	10.7	2.7	4.2	3.0
Female	—	14.4	12.6	4.2	5.8	6.2
Urban areas	—	32.6	22.6	10.2	15.2	12.4
Rural areas	—	7.9	7.5	2.0	2.4	1.7
Informal employment (proxy), in %	—	—	—	—	95.0	93.3
Male	—	—	—	—	92.5	90.2
Female	—	—	—	—	97.3	96.3
Urban areas	—	—	—	—	82.5	82.1
Rural areas	—	—	—	—	97.8	97.0

Source: ILO (2010), p. 2; based on data from NBS, Integrated Labour Force Survey 2000/01 and 2006.

Regarding the literacy rate,²²⁰ about 74% of the labour force was literate; males accounting for 81.4% and females 67.7%. Geographically, 89.5% was in urban areas and 68.2% was in rural areas. In terms of age group, about 38.1% of the labour force was in the age group of 35-64 years followed by those aged 15-34 with the share of 27.8%.

²²⁰ The national definition of literacy is 'the extent at which one knows to read and write either mother tongue (Swahili) or English language, or both Swahili and English and/ or any other language'.

About 75% of employed persons in Tanzanians are employed in agricultural occupations. The next largest sector is the informal sector, followed by other private, with 10.1% and 8.6% of the employed population respectively. Paid-employment and self-employment account for 8.3% and 1.4% respectively. Still, of the yearly influx onto the labour market of 550,000-700,000 new job seekers, only 5-7% are absorbed into the formal sector.²²¹

As already pointed out previously; TIC offers fiscal and non-fiscal incentive packages to the real estate investors. These incentive packages are amongst the competitiveness strengths of the Tanzania real estate industry. The investor is also provided with work permits for recruiting up to four non-residents to make up for management and technical expertise that is not available in the Tanzania labour market.

In Tanzania, household income ranges between US \$ 50 and US\$ 500 per month.²²² However about 41% of all urban adults in the country rely on two or more sources of income.²²³ In terms of education, paid employees with education (college education and above) have higher monthly income than those who do not have professional qualifications. Among paid employees, legislators and administrators tend to receive the highest pay, followed by professionals. For instance, the mean monthly income for those self-employed in real estate, renting and business activities is the highest.²²⁴ Agriculture is the lowest income sector in the country.²²⁵ The average monthly income for the last three Integrated Labour Force Survey (ILFS) in the country is as shown in Table 7.

²²¹ See Assens/Jensen (2003), p.8.

²²² See UN-HABITAT (2008), p. 12.

²²³ See CAHF (2011), p. 102.

²²⁴ See NBS (2007), p. 85.

²²⁵ See NBS (2007), p. 78-79, and p. 81.

Table 7: Earning and Productive work: Average Monthly Income in Tanzania

Indicator	All Income Sources (excluding self-employment in agriculture)			Income from paid employment			Income from self-employment (excluding agriculture)		
	1990/91	2000/01	2006	1990/91	2000/01	2006	1990/91	2000/01	2006
Average monthly income, in current Tanzanian Shillings²²⁶	—	42,103	84,600	4,950	51,372	98,454	17,000	36,630	75,693
Male	—	53,053	100,736	5,150	55,685	106,272	24,000	50,020	94,373
Female	—	26,268	60,170	4,300	40,486	79,032	8,200	21,601	53,163
Urban areas	—	59,544	104,472	5,460	69,418	122,297	—	52,236	89,011
Rural areas	—	27,151	66,914	4,150	32,208	66,423	—	24,581	66,068
Average monthly income, in constant 2000 Tanzanian Shillings	—	41,395	64,138	24,752	50,508	74,641	85,009	36,014	57,385
Male	—	52,161	76,371	25,753	54,748	80,568	120,012	49,179	71,547
Female	—	25,826	45,617	21,502	39,805	59,917	41,004	21,238	40,305
<i>Male/ Female ratio</i>	—	2.02	1.67	1.20	1.38	1.34	2.93	2.32	1.78
Urban areas	—	58,542	79,204	27,303	68,250	92,717	—	51,357	67,482
Areas	—	26,694	50,730	20,752	31,666	50,357	—	24,167	50,088
<i>Urban/ Rural ratio</i>	—	2.19	1.56	1.32	2.16	1.84	—	2.13	1.35

Source: ILO (2010), p. 8; based on data from NBS, Integrated Labour Force Survey 2000/01 and 2006.

3.3 Institutional Framework and Real Estate Activities

Effective management and administration of land to a large extent depends on the existence of institutional structures which in turn provide conducive environment on land and property development and investment practices. Keogh and D'Arcy (1999) point out that, the property market exists within an institutional framework defined by political, social, economic and legal rules and conventions by which the society in question is organised.²²⁷ Kusiluka (2012)²²⁸ mentions economic institutions (credit markets, capital markets, money markets, central bank and other investment regulatory institutions, insurers, market of building materials and manpower, investors, developers and users), legal institutions (laws, regulations, conventions, courts), political institutions (political policies, ideology, parties, orders, risks, support election, appointment of executives), and social institutions (households, families, religion,

²²⁶ Refer the trend of Tanzanian exchange rates in Table 5 of this work.

²²⁷ See Keogh/D'Arcy (1999) as quoted from Kusiluka (2012), p. 92.

²²⁸ See Kusiluka (2012), p. 92. The author comes up with a framework which shows the connection of property investment with the various institutions and how those institutions are connected to form a broad institutional environment.

gender, education) as institutional framework of real estate investment in Tanzania. The section below discusses the institutional framework and real estate activities in the country.

3.3.1 Legal Institutions

Legal institutions in the land sector provide support to the real estate operations and the operation of land markets. Like many countries, Tanzania has a constitution as the supreme law. The 1977 Constitution of the United Republic of Tanzania has been amended from time to time. This Constitution ultimately determines the validity of other laws in the country. The land reforms in Tanzania as evidenced by the Land Policy of 1995 and the Land Act and the Village Land Act, both of 1999 represent a turning point in the development of a legal framework for the land sector in the country. In order to address land issues in Tanzania; land, housing, and real estate operations related policies, laws, and regulations have been enacted. Among others they include:

- (a) Land Acquisition Act No.47 of 1967
- (b) National Land Policy of 1995
- (c) The Land Act, No. 4 of 1999
- (d) The Investment Act No. 26 of 1997
- (e) The Village Land Act, No.5 of 1999
- (f) National Human Settlement Development Policy of 2000
- (g) The Courts (Land Disputes Settlement) Act No. 2 of 2002
- (h) Land (Amendment) Act of 2004 (for revising the current legal framework for mortgage finance in Tanzania as provided by the Land Act No. 4 of 1999)
- (i) The Environmental Management Act of 2004
- (j) The Urban Planning Act No. 8 of 2007
- (k) The Land Use Planning Act No. 6 of 2007
- (l) The Town Planners Registration Act No. 7 of 2007
- (m) The Mortgage Finance (Special Provisions) Act of 2008
- (n) The Unit Titles Act, No. 16 of 2008

Other laws which are aimed at facilitating land markets functioning which are in their final stages of enactment are:

- (a) Valuation and Valuers Registration Act, and
- (b) Real Estate Agents Act

Regulations which have been enacted include:

- (a) The Land Regulations (2001) to operationalise the Land Act, No. 4 of 1999
- (b) The Village Regulations (2001) to operationalise the Village Land Act, No. 5 of 1999
- (c) The Land Disputes Regulations (2004) to operationalise the Land Disputes Act No. 2 of 2002

Regulations which are in the final stages of preparations are:

- (a) Regulations to operationalise Mortgage Finance Act of 2008
- (b) Regulations along with by-laws to operationalise the Unit Titles Act of 2008

Apart from enacting new laws, some laws which were considered to be impediment to investment in real estate have been repealed altogether. These include Land Ordinance Cap. 113 of 1923 and Rent Restriction Act of 1984. All these real property related pieces of legislation are mainly meant to improve performance in the real property sector in terms of increasing the number of transactions in landed property, controlling professional practice, creation and administration of multiple interests in property, increasing security to investors and consumers, and simplifying access into the property market by investors.²²⁹

3.3.2 Political Institutions

In order to assure investors, the government must keep its political capacity consistent with the desired policy, thus maintaining its policy stability.²³⁰ Political institutions have to ensure the ability of government to commit to stable and non opportunistic

²²⁹ See Kusiluka (2012), p. 108.

²³⁰ See Feng (2001), p. 275.

regulatory policies, and its impact on economic sector's performance. The more stable and less risky political environments lead to stronger incentives to invest in a given country. For instance, Feng (2001)²³¹ studies three dimensions of political systems (i.e. political freedom, political instability, and policy uncertainty) for their potential consequences on private investment. The author finds out that, there is a strong connection between political institutions and private investment especially for developing countries. Political institutions influence performance of property market through the level of perceived political risk, political support, and political policies.²³²

Tanzania's system of government is based on the British system. The country derived this system as well as the legal system from the British colonial legacy. The country has three organs: the Executive, Judiciary and the Legislature. The Executive consists of the President, the Vice-President, President of Zanzibar, the Prime Minister and cabinet ministers, the Legislature consists of the President and the National Assembly, and the Judiciary is formed by the various courts of judicature and is independent of the government. Tanzania is governed by its 1977 Constitution as revised in 1984 and 1999. During this study, the process of rewriting the Constitution was underway. The country was a single-party system of democracy since independence until 1992 when the Constitution was amended to allow multi-party democracy. General elections are held every five years to elect the President and members of the Parliament. The President's tenure in office is limited by the constitution to two five-year terms. Politically, the country has been stable and democratically holding its election peacefully. Peaceful multiparty general elections were held in 1995, 2000, 2005, and 2010.

Governance in Tanzania has seen major improvements since the liberalisation of politics and introduction of reforms in the legal, public, local governance and public financial management sectors. The country's anti-corruption strategies go back to the colonial era. However, after independence in 1961, a number of strategies to combat corruption were put in place. Before 1975 the duties of combating corruption were under the Ministry of Home Affairs, where the Police Force Department was entrusted with the mandate to investigate and prosecute corruption offences. In 1971, the

²³¹ See Feng (2001), p.272 and p. 288.

²³² See Kusiluka (2012), p. 92.

Prevention of Corruption Ordinance (PCO) of 1958 was repealed and replaced by the Prevention of Corruption Act No. 2 of 1974. The Act provided for the establishment of an Anti-Corruption Squad. The Anti-Corruption Squad was established in 1975 by Government Notice No. 17 of 1975. In 1991, the Squad was re-structured to become Prevention of Corruption Bureau (PCB). PCB was given the mandate to investigate, raise awareness and guide government on anti-corruption issues as well as prosecute cases of corruption, either directly or via the Director of Public Prosecutions. In 1996, a Presidential Commission against Corruption was formed to assess the state of corruption in the country. The Commission came up with a report popularly known as *Warioba Report*²³³ which identified areas/environments where corruption occurs and revealed the mechanisms (e.g. regulations and procedures) that facilitate corruption. In 2007 the Prevention of Corruption Act was replaced by the Prevention and Combating of Corruption Act (PCCA) No. 11. The new Act changed the name of the Bureau to Prevention and Combating of Corruption Bureau (PCCB). The Bureau was given the mandate to prevent corruption, educate the society on the effects of this problem, and enforce the law against corruption.

In an effort to address corruption in the country, the government also launched National Anti-Corruption Strategy and Action Plan (NACSAP). NACSAP aims at finding out more sustainable mechanisms of addressing corruption. Indicators compiled in recent years by the World Bank (2009) suggest progress in most dimensions of governance.²³⁴ They also recognise the positive steps of the country's political agenda of reducing corruption. Reform of political and legal institutions in Tanzania has spurred changes in other institutions and the way of doing business. The sound democratic government and political stability of Tanzania has boosted development and investment in the real estate sector as well. For instance, the government takes care of the political risk by guaranteeing protection against nationalisation for foreign developers and investors in the country. Also the incentives which are offered in the real estate sector show the political willingness of the government to attract more investment.

²³³ The Presidential Commission was led by Joseph Warioba; the former Prime Minister and the first Vice President of the United Republic of Tanzania.

²³⁴ See World Bank (2009), p. 27.

3.3.3 Economic Institutions

As for other institutions, economic institutions impact the real estate activities. Issues such as demand and supply, risk and return, capital, cost of capital, inflation rate and expected growth influence the real estate investment and development decision making to a great extent. During the reform period, the country has been able to attain favourable macro-economic indicators. This includes growth of the GDP, lowering the inflation rates as well as increasing the stock of FDI. A number of laws and or institutions were established such as in the banking, taxation, and mining sectors. To create a conducive business and investment environment in the country, some major policy measures which were taken during the reform period include the following:²³⁵

- (a) Establishment of Investment Promotion Centre (IPC) in 1990
- (b) Enactment of Banking and Financial Institutions Act of 1991 that has increased competition in the financial (banking) sector
- (c) Enactment of the Foreign Exchange Act of 1992 that has facilitated abolition of many trade and exchange restrictions
- (d) Introduction of foreign exchange market in July 1993 that led to market rate determination of the exchange rate
- (e) Formation of the Presidential Parastatal Sector Reform Commission (PSRC) in 1993 that oversaw the divestiture of parastatals
- (f) Enactment of the Capital Market and Securities Authority Act of 1994 that led to the establishment of the Dar es Salaam Stock Exchange (DSE) in April 1998
- (g) Establishment of Tanzania Revenue Authority (TRA) in 1996 that has streamlined the tax regime, followed by the introduction of Value Added Tax (VAT) in July 1998
- (h) Launching of the Mining Policy of 1996
- (i) Transformation of IPC into Tanzania Investment Centre (TIC) in 1997, as a one-stop centre for all foreign and local investors
- (j) Launching of the Tourism Policy of 1997

²³⁵ Tanzania Investment Report (2001), p.4; TIC (2004), p. 10; Sitta (2005), p. 10-11; and see PwC (2008), p. 4.

- (k) Phasing out of CD3²³⁶ form and introduction of Single Bill of Entry in order to simplify customs documentation in 1997

3.3.4 Social Institutions²³⁷

The resultant built environment is also determined by the social institutions. Social institutions influence the choices and decisions made by land and real estate actors as to the type and function of the real estate. Property rights are some of social institutions that govern the ownership, use, and disposal of anything that people value. Social institutions determine the type and function of property. However, they have also been changing with the change in the political, economic and legal environment. Most of the laws enacted have been tailored to reflect the prevailing social institutions.

3.4 Land Ownership²³⁸ and Real Estate Institutional Framework in Tanzania

3.4.1 Management of Land

Land in Tanzania belongs to the public and is vested in the President as trustee. The land is divided into three categories i.e. General Land, Village Land and Reserved Land. All three categories are under the ultimate administration of the Commissioner for Lands. Land administration, management, and development is solely vested upon two institutions; namely the ministry responsible for lands and the Local Government Authorities within their geographical areas of jurisdiction. Use and occupation of land is through granted and deemed Right of Occupancy. The two types of Right of Occupancy are at the same level at law. The granted Right of Occupancy is granted by the President through the Commissioner for Lands, while the deemed Right of Occupancy is granted by the Village Council on behalf of the President. Thus, the administration, management and allocation of land are maintained under the state executive.

²³⁶ CD3 stands for Currency Declaration (Form 3). The form was used for export licensing and for surrendering of foreign exchange proceeds. In 1997, Tanzania phased out the CD3 forms and introduced a Single Bill of Entry as a new measure for documentation of export transactions.

²³⁷ See Kusiluka (2012), p. 22, p. 92 and p. 102; also see Parkin et al. (2008), p. 48.

²³⁸ The Land Acts of 1999 are made up of two pieces of legislation; the Land Act No. 4 of 1999, which provides for the basic law in relation to land other than the village land on the management of land, settlement of disputes and related matters; and the Village Land Act No. 5 of 1999, which provides for the management and administration of land in villages, and for related matters.

In the case of General Land, land administration is the mandate of the Commissioner for Lands assisted by Zonal Assistant Commissioners (whose offices are located in 5 recently established zones i.e. in Mwanza for Lake Zone, Moshi for Northern Zone, Dodoma for Central Zone, Dar Es Salaam for Eastern Zone, and Mbeya for South-West Zone), and authorised officers in Districts and Urban Councils. In the case of Village Land; the Village Council is responsible for land administration and answerable to the Village Assembly. Village governments are empowered to manage village land under the provisions of the Village Land Act No. 5 of 1999. The Act sets a mechanism in rural areas in which land holders are given Certificate of Customary Right of Occupancy for their land parcels. Reserved Land consists of conservation areas, game reserves, national parks, wildlife areas, forests etc. Reserved Land constitutes 28% of all land in the country. Reserved Land is under the administration of the Natural Resources Conservation Authorities.

The current property regime in Tanzania has evolved over a number of years and is a particular product of the land tenure system that was imposed during both the German and British colonial times; and as inherited and modified after independence in 1961. Tanzania real estate institutional environment can be traced back to three different periods.²³⁹ These periods are pre-colonial and colonial period (before 1961), post-independence and pre-reforms period (1961-1985), and institutional reform period (after 1985).

3.4.1.1 Pre-Colonial and Colonial Period

Before colonialism, land holding in Tanzania was through different customary arrangements of the different tribes. Tanzania has about 120 tribes. Right to the land was governed by customs and traditions of the respective tribes. Land was mainly used for subsistence agriculture, animal grazing and other livelihood activities. The administration of land was mostly vested in the chiefs, headmen and elders who were entrusted with the community. The traditional land ownership ceased during the colonial era during which the newly introduced German (during German era from 1884-1917) and later British (during the British era from 1917-1961) land tenure system were in place. Formal land ownership was first introduced during the German rule. In 1895,

²³⁹ See Kusiluka (2012), p. 118.

the Germans introduced Imperial Decree which declared all land in Tanzania (then Tanganyika) whether occupied or not, to be *Crown Land*. In 1923, the British came up with the Land Ordinance, which declared that all land as public land under the control of the Governor, and that no title to the occupation and use of any such lands was valid without the consent of the Governor.²⁴⁰ Land Ordinance further introduced a new system of land ownership known as Right of Occupancy. Titles and interests which were created prior to the enactment of the Ordinance were not affected by the provision of the Ordinance. The freeholds and other interests created during the German rule were not abolished by the British.²⁴¹

Regarding the activeness of the real estate sector during the pre-colonial and colonial period, Kusiluka (2012)²⁴² notes that, although many modern large urban centres were established during colonial period, there was little growth of the sector during pre-colonial and colonial period and urbanisation was still low. Urban property development during colonial period was mainly dominated by government properties and foreigners' residences.

3.4.1.2 Post Independence and Pre-Reforms Period

After achieving independence from the British in 1961, the country had four types of land titles or interests in land, these include freeholds, leaseholds, granted Right of Occupancy and Deemed Right of Occupancy. In 1962, most of the freeholds and leaseholds which were issued during the German rule were abolished by Government Paper No. 2. In 1967, the country undertook major ideological shift towards socialism. In 1967 the Arusha Declaration, which was a major ideological shift towards socialist policies was announced. Under the socialism ideology, all major means of the economy were placed under the direct control of the state. Most of the urban private properties were nationalised. The political and legal system during that period discouraged private property ownership. Kusiluka (2012)²⁴³ notes that, real estate sector was adversely affected by promulgation of the Arusha Declaration. The author provides further that, enactment of Building Act in 1971 further paralysed growth of the

²⁴⁰ See Kusiluka (2012), p. 93 as quoted from Shivji (1998).

²⁴¹ See Larsson (2006), p. 13.

²⁴² See Kusiluka (2012), p. 119.

²⁴³ See Kusiluka (2012), p. 119.

property sector. Among others, the Act provided for the nationalisation of all private rental properties whose market value were above TZS 100,000 (then equivalent to US \$ 14,000) or its monthly rental value was above TZS 833.3.²⁴⁴ Through Arusha Declaration, the government also prohibited public servants from among other things, owning more than one house. It was during socialism when foreign investors fled the country and local investors kept a low profile. The state became the only key player in the real estate sector, which significantly retarded growth of the property sector.²⁴⁵

3.4.1.3 Institutional Reform Period

Tanzania saw the need to reform the land laws by developing a coherent and comprehensive land policy that would clearly define the land tenure which enhances proper management, administration and allocation of land in the rural and urban areas. In 1995, the National Land Policy was formulated to deal with land matters. The National Land Policy formed the basis for the Land Act No. 4 and Village Land Act No. 5 of 1999. However, besides the two Land Acts, there are numerous statutes and policies governing land administration in Tanzania. Some of these include Land Acquisition Act No. 47 of 1967, Urban Planning Act No.8 of 2007, Courts (Land Disputes Settlements) Act No. 2 of 2002, Investment Act No. 26 of 1997, Environmental Management Act 2004, Mortgage Finance (Special Provisions) Act, 2008, and Unit Titles Act, No. 16 of 2008.

It was during the institutional reform period that real estate sector regained ground. The institutional reforms enabled the country to embark on market economy policies which created a better investment environment for all sectors of the economy including real estate. The growth of the private investment started to take shape. Also the country started to record favourable economic indicators. The real estate sector also substantially benefited from the reforms. The improved environment as a result of the reforms has attracted a wide range of real estate investors ranging from institutional investors to foreign investors. Owing to the increase in number of property development and investment activities, the level of real estate services also increased.

²⁴⁴ See Meredith (2006), p. 252; Okpala (1986), p. 218.

²⁴⁵ See Kusiluka (2012), p. 119.

Professional firms providing services such as valuation, management and estate agency also increased noticeably over the reform period.

However, despite the improvements of the institutional framework setup, the framework still suffers a number of limitations. There is an unclear implementation strategy which results into corruption and bureaucratic procedures in land issues along with prevalence of elements of professional malpractice. For instance, procedures provided by the legislation before getting a permit to start development are too many and sometimes complicated. This causes majority of real estate developers to start property development without obtaining building permits. This has led to haphazard real estate development almost in all urban areas in the country. Even obtaining a certificate of Right of Occupancy and getting all documentation done on time is still a challenge. Kironde (2009)²⁴⁶ observes that, Tanzania is doing well in areas of recognition of rights (with the exception of communal rights in rural and urban areas), recognition of the rights for women and stakeholder involvement in developing land policies and laws. However, the author warns that, Tanzania has a long way to go in terms of registering land and improving land information systems, urban land management, the management of public land, expropriation, and dispute resolution.

3.4.2 Right to Land Ownership

Most of land administration responsibilities are executed by the Ministry of Lands, Housing and Human Settlements Development (MoLHHSD) and local government Authorities. In other words, the concept of private ownership of land does not exist and that individuals and/ or groups in the form of association, partnership or a corporate body can have Rights to Occupy and use land for a period up to 99 years. However, the 99 year term can be renewed. Land may also be leased. Leases are created out of a Right of Occupancy for any term which does not exceed the length of the Right of Occupancy. Section 78(2) of the Land Act No. 4 of 1999, provides that, the maximum term for which any lease may be granted shall be ten days less than the period for which the Right of Occupancy has been granted for a definite period. Lease contracts offer the lessee the right to sublease, subdivide, or mortgage the leased land or use it as collateral, subject to the terms of the contract. The Land Act No. 4 of 1999 also

²⁴⁶ See Kironde (2009), p. 26.

provides for leaseholds and co-occupancy (i.e. joint occupancy or occupancy in common).

In principle, rights of occupancy can be bought, sold, leased and mortgaged in Tanzania. However, in practice the land market is constrained by many layers of government control. The formal market for transfers requires government approval and land received through grants must be held for three years before the landholder can sell the rights. The process of transfer of a granted Right of Occupancy involves the local authorities which are responsible for approval, then forwarding to the MoLHHSD for final processing.

Land allocation is done by the Commissioner for Lands assisted by the Land Committee (at national, district, and township level) to handle applications for land. The successful applicants get a *Letter of Offer*. After the acceptance of the Letter of Offer, a certificate of Occupancy is issued in the name of the President. Section 30(1) of the Land Act No. 4 of 1999 provides that, if the Commissioner does not issue the certificate of occupancy within 180 days of receipt of the acceptance, the 'offeree' may request the Registrar of Documents to register the Letter of Offer. This registration makes the Letter of Offer stand as a legal equivalent to the Certificate of Occupancy. Should the occupant of the land want to change the use of the land, she/he must apply to the Commissioner for Lands to do so. Inspection for the change of use is done by the responsible local authority which needs to verify if the occupant is complying with the permitted use of the land.

It should be noted that, most of the land in Tanzania is un-surveyed. Surveying and servicing of plots for property investment in Tanzania is the duty of the central government. However, in practice individuals/investors may have to survey land and prepare the plot for construction at their own expenses which approximately range between 10% and 15% of construction cost.²⁴⁷ In order to start development on land, the developer must have a certificate of Right of Occupancy. Alternatively, a Letter of Offer will suffice as a temporary measure, until the title is processed. The developer must also apply for planning consent under the Urban Planning Act of 2007 and apply

²⁴⁷ See Mtui (2000), p. 72.

for a building permit under the Township (Building) Rules within six months of the grant of the Right of Occupancy. Construction can begin only after the building permit is received. Construction must begin within six months of receiving the permit, although one can apply for extensions. Construction must be completed within three years of receiving the building permit. In practice, all these provisions are not strictly enforced.

Private real estate market in Tanzania remains in its infancy. For developers/investors, there is no serviced land. As a result, most developers/investors have to go through the lengthy process of identifying land, obtaining title, undertaking construction, and connecting utilities before they can begin operations.²⁴⁸ World Bank (2011b); World Bank (2010d) and IFC (2009)²⁴⁹ on ease with which entrepreneur can secure rights to property in Tanzania using three indicators i.e. the number of procedures necessary to transfer a property title from the seller to the buyer, the time required, and the costs as a percentage of the property's value show that, Tanzania is one of the countries out of 183 countries having many steps, and taking a long time for one to register the property. For instance, to register the property requires 9 steps, takes 73 days, and costs 4.42 % of property value. Getting construction permit requires 22 steps, takes 328 days, and costs 2,756.3 (% of income per capita). As of June, 2010, across 183 economies (i.e. 46 in Sub-Saharan Africa, 32 in Latin America and the Caribbean, 27 in Eastern Europe and Central Asia, 24 in East Asia and Pacific, 19 in the Middle East and North Africa and 8 in South Asia, as well as 27 OECD high-income economies) as benchmarks, Tanzania is ranked 151 overall for ease of registering property and is ranked 179 for ease of getting construction permit.²⁵⁰ Another study by Mbele (2009)²⁵¹ elaborates the steps, time, costs and actors involved from selling to registering of real property in Tanzania as is shown in Table 8.

²⁴⁸ USAID (1999), p. 19.

²⁴⁹ See World Bank (2011b), p. 5 and p. 59; World Bank (2010d), p. 198; also see IFC (2009), p. 20-p. 23.

²⁵⁰ See World Bank (2011b), p. 59; also see World Bank (2010d), p. 198.

²⁵¹ See Mbele (2009), p. 54.

Table 8: Steps, Time, Costs and Actors Involved from Selling to Registering of Real Property in Tanzania

No. of steps	Activities	Actor, Stakeholders & Institutions Involved	Days	Costs involved (TSZ) ²⁵²
1.	Title search	Land registration zone office	1-5	2,000-4,000
2.	Sale of property (preparation of sale agreement)	Estate agency, solicitor	5-60	The cost is negotiable, ranging from 3%-10% of the selling price
3.	Letter of consent (for trust) and Certificate of Incorporation (for companies) and Certificate of Incentive (for foreigners)	Administrator general, BRELA and TIC.	3-30	Fees paid to respective institutions e.g. preparation of Certificate of Incentive is US \$ 750. Derivative Title by TIC constitutes 10% of the total costs of the Letter of Offer, and for Certificate of Incorporation, the cost ranges from 126,000-400,000 (for local companies) and US \$ 800 for foreign companies
4.	Processing the documents to the municipal land office: Sale agreement, application for approval disposition form, notification form, land rent, property tax, and valuation report	Estate agency, land officers and valuers	30-90	Each item is charged differently. The fees are minimal. For instance estate agency fee ranges between 3%-10% of the value of the property
5.	Payment of stamp duty, registration fee and consent fees	TRA, MoLHHSD	1-5	<u>Stamp duty</u> : 1% of the market value of the property selling price. <u>Registration Fee</u> : 25% of the land rent charged <u>Consent fee</u> : 5,000.
6.	Processing valuation report to chief valuer at MoLHHSD	Municipal/district valuer, Chief valuer	5-20	Valuation approval fee (0.01% of the market value)
7.	Payment of Capital gain tax	TRA	1-5	10% and 20% of the property's net gains realised by residents and non-residents respectively. Company is charged 30% (for both residents and non-residents)
8.	Processing the documents to land registration zone office	Land registrar or assistant registrar	1-14	A payment check list is submitted to crosscheck payment of all government fees as described above.

Source: Modified from Mbele (2009), p. 54.

3.4.3 Taxes and other Costs on Landed Property

Taxes on land have impact on rents which can affect both the uses to which land is put and its price.²⁵³ Investment in properties in Tanzania is subjected to a series of taxes. Given that property is held on what are, in effect, leases from the government, land rent is due on all properties and is legally payable by the owner.²⁵⁴ The actual amount is fairly minimal. The rent depends on the location, size and use and is calculated on a

²⁵² Refer the trend of currency exchange rates in Table 5 of this work.

²⁵³ See Evans (2004), p. 219 and p. 225.

²⁵⁴ See Land Act No. 4 of 1999 under Section 33(1). However, Section 33(7) of the Act exempt from paying rent any person or organization holding land exclusively used for religious worship or for burial or for both religious worship and for burial.

fixed amount per square metre per annum. Other costs on land allocation include; survey fee (paid once based on size, location, intended use and accessibility), stamp duty (paid once based on the amount of land rent), plot registration fee (paid once based on the amount of land rent), deed plan fee (paid once, the fee is adjusted periodically; it is TZS 6,000 at present), fee for the certificate of Right of Occupancy (paid once, the fee is adjusted periodically), and one year's land rent which is paid annually.

A property developer is also supposed to pay a building permit fee. Rental income is charged for residential properties which exceed TZS 500,000 per annum. In case of transfer/sale of the property, a tax of 10% for residents and 20% for non-residents is charged. In addition, property owner is also required to pay property tax. The power of local authorities to tax land is stipulated in the Urban Authorities Rating Act of 1983. Property taxes are payable to the local authorities and the rates vary according to the property value. Many Municipalities in Tanzania use one tax rate that is applied uniformly across the entire municipality with no differentiation according to property type or location. For instance in Dar es Salaam, property tax is payable to the municipal councils based on 0.15% of the capital value of the property.²⁵⁵ However, there is one Municipal council in Dar es Salaam (Ilala Municipal Council) which charges differential rates for residential and commercial properties.²⁵⁶

3.4.4 Land Conflict and Resolution in Tanzania²⁵⁷

Land development and investment require the availability of land parcels that are secure in tenure. In most cases, disputes and other conflicts on land tend to discourage potential developers or investors. Tanzania has recognised the necessity of having legal land dispute settlement machinery which takes care of all land related conflicts in the country. The Courts (Land Disputes Settlements) Act No. 2 of 2002 is the main statute dealing with resolution of land disputes for both urban and rural land

²⁵⁵ In Tanzania, property tax base covers buildings (or improvements) only. Urban Authorities (Rating) Act of 1983 is the Act which governs property taxation. However, the Urban Authorities (Rating) Act, 1983 under section 19(1); the Local Government Finances Act 1982 under Section 13(5) and the Urban Authorities (Rating) Exemption from Liability of Rates Order 1997 under provision No. 4 empower the responsible Minister to exempt some properties from paying property taxation.

²⁵⁶ See Kayuza (2006), p. 152-153; in this Municipal Council the rates are 0.15% and 0.2% for residential and commercial properties respectively. Also see McCluskey et al. (2003), p. 43.

²⁵⁷ This part is mainly based on the author's research works conducted in 2009 and 2010; See Kongela/Mpogole (2009a), p. 8-9; and Kongela et al. (2011), p. 67.

in Tanzania. According to section 3(2) of the Act, courts that have jurisdiction to determine land disputes include: Village Council, Ward Tribunal, District Land and Housing Tribunal, High Court (Land Division) and, the Court of Appeal of Tanzania. Section 167 of the Land Act No. 4 of 1999 and Section 62 of the Village Land Act No. 5 of 1999 expressly provide that every dispute or complaint concerning land shall be determined by these courts.

The choice of the court for a particular case depends both on geographical and pecuniary jurisdictions of the court. Village Councils are normally meant to mediate between and assist parties to arrive at a mutually acceptable settlement of the disputes on any matters concerning land within their areas of jurisdiction i.e. villages. Ward Tribunals also deal with matters falling in their areas of jurisdiction. The pecuniary jurisdiction of Ward Tribunals is limited to up to TZS 3,000,000.²⁵⁸ The Courts (Land and Settlements) Act of 2002, provides for preferential treatment to women, by expressly providing for their inclusion as officials of both Village Councils and Ward Tribunals. The geographical jurisdiction of District Land and Housing Tribunals may be districts, regions or zones, as defined at the time of their establishment. The pecuniary jurisdiction of District Land and Housing Tribunals is for proceedings of possession of immovable property in which the value of the property does not exceed TZS 50,000,000. The High Court (Land Division) deals with all matters in which lower courts have no jurisdiction. The Court of Appeal deals with appeals from the High Court. Decisions of the lower courts may be appealed against to the higher courts.

In 1999, the government established the Commercial Court of Tanzania to facilitate litigation of commercial disputes. The court was established in order to provide a positive climate for investments and install confidence within the business community in the country's judicial system.

²⁵⁸ Refer the trend of Tanzanian exchange rates in Table 5 of this work.

3.5 Building Construction, Operation and Transaction of Properties in Tanzania

3.5.1 Building Construction Permits in Tanzania

Once a developer is ready to begin development project on the allocated land, she/he will require a building permit. The permit application must be processed at the local authorities administering the area where the property is to be located. An applicant is supposed to fill application forms for planning consent (2 copies). These forms require the address/location and planning zone of the proposed development, the number of plot and the intended use of the buildings or land, the purpose for which the land was last used, a general description of the development, the area and circumference of the plot, the width of the street opposite, and the building line or set-back of the adjoining building.²⁵⁹ The following documents are also required when applying for a building permit:

- Four copies of Building Plan showing architectural/engineering drawings and calculations, including site layout and location plans, elevations, sections of the building including storm water drainage, fire protection, driveways and parking
- Notice of intention to erect or alter a building. This form shows the name and address of the developer/owner, intended use of the building, estimated costs of construction, number of storeys, and the area (in square meters) of each storey
- Title Deed showing ownership
- Receipt of payments of land rents, permit fee, and other statutory fees

Other issues are also looked at when one applies for a building permit. For instance, Section 29(3) of Urban Planning Act No. 8 of 2007 provides that, where in connection with an application for planning consent to develop land and subject to any other relevant law, the Planning Authority is of the opinion that proposals for industrial location, dumping sites, sewerage treatment, quarries or any other development activity shall have injurious impact on the environment, the applicant shall be required to submit together with the application the Environmental Impact Assessment report. Section 45(3) of the Urban Planning Act No. 8 of 2007, further provides that, where

²⁵⁹ See USAID (2004), p. 132.

consent to develop land is revoked or modified and, if it appears that any person interested in the land has incurred expenditure in carrying out the work which is rendered abortive by the revocation or modification or has otherwise sustained loss or damage that is directly attributable to the revocation or modification, that person shall be paid compensation by the Planning Authority under this Act.

The application then is forwarded to various departments including fire department, health department and planning department. Each of these departments must approve the project. To speed up the approval, the applicant should normally make follow up with each of these departments personally. After getting approval from the said departments, the Municipal/township engineer approves the plans first, before submitting the application to the City Council/Township Council for final approval. For the case of Dar es Salaam, the approval committee meets (2 or 3 times in a month, the number of meeting differs from one municipality to another) to make final approval of the building permit. In most cases, that is where delays start. Sometime the local authorities do not sit regularly as they are supposed to do.

3.5.2 Construction Costs

Construction costs comprise direct and indirect costs. Direct costs are the expenditures for materials, equipment and labour used in the actual construction or improvement of the building, while indirect costs are other expenditures related to the construction process. These include costs associated with obtaining building permits, marketing expenses, contractor's overhead expenses, professional fees for lawyers, engineers, architects, surveyors etc. and contractor's profit. The general overview of the construction industry in Tanzania reveals that, the industry is dominated by foreigners who hold about 60% in terms of money value of market share.²⁶⁰ It is also argued that, in Tanzania the cost of building construction is high, which is caused by heavy reliance on imported construction materials.²⁶¹ For instance, Table 9 shows construction costs for different property uses in Dar es Salaam city with comparison of two other East African countries (Kenya and Uganda) in 2010.

²⁶⁰ See CRB (2011), p. 11 and p. 39.

²⁶¹ See World Bank (2010a), p. 39.

Table 9: Building Construction Costs in Tanzania and other East African Countries for 2010

Building Type	Cost of Construction (USD)*		
	Dar es Salaam	Nairobi	Kampala
Residential (Rate/m²)			
Average multi-unit high rise	870	505	820
Luxury unit high rise	1,390	650	1,290
Individual prestige houses (Detached houses & bungalows)	2,210	780	2,050
Commercial/Retail (Rate/m²)			
Average standard offices high rise	930	460	850
Prestige offices high rise	1,500	910	1,390
Major shopping centre (CBD)	1,200	520	1,120
Industrial (Rate/m²)			
Light duty factory	820	400	780
Heavy duty factory	1,350	540	1,260
Hotel (Rate/m²)			
3-Star hotel	83,320	110,000	77,620
5-Star luxury (including spa)	337,400	170,000	314,470
Resort style (including spa)	405,910	200,000	404,920
Other (Rate/m²)			
Multi-storey car park	740	400	670

Source: Modified from Davis Langdon Report (2011), p. 52.

Note: Prices exclude land, site works, professional fees, tenant fit out, equipment and VAT. Hotel rates include an allowance for Furniture, Fittings and Equipment (FF&E)

*For the exchange rate of Tanzania Shilling against USD \$, refer to Table 5 of this work. Exchange rate of Kenya Shilling against US\$ (KES/US \$) was 77.28 in November 2010 while exchange rate of Uganda Shilling against US \$ (UGX/US \$) was 2,315.00 in November 2010.

Compared with other East African countries i.e. Kenya and Uganda, the construction costs for all property types are higher in Tanzania. This could be attributed to high reliance on imported construction material and on hiring foreign consultants such as contractors, architects, and engineers, which tend to increase construction costs. Also short supply of local construction material, shortage of equipment and skilled labour from the local market account for the high construction cost. Additionally, shortage in the supply of power and water has also been pushing up construction costs.

3.5.3 Common Operation Costs in Property Investment

Apart from costs relating to land tenure, taxes and other costs, below is a list of common key costs related to property investment (i.e. commercial properties) especially in Dar es Salaam city:

- Rent: ranges from US \$ 8-20
- Service charge: ranges from US \$2 per m² to US \$3.6 per m² per month
- Notary fee: in most cases all legal documents like lease agreement are prepared by the letting agent and after the execution of the agreement tenant is required by the law to pay stamp duty which is 1% of the annual rent. Security fee is also charged, the amount depends on the covenant of the tenant. It ranges from one month rent to six months rent
- Rental Increases: in only few cases is the escalation rate covered in the lease agreement and it ranges between 2% to 3% per annum. In most cases lease agreements give room for rental reviews but without mentioning the escalation rate

Other payments made by tenants apart from rent include service charge and Value Added Tax (VAT) which is 18% of rental income. It should however be noted that, the VAT of 18% is charged only by VAT-registered landlords or developers. Landlords are also required to pay withholding tax at the rate of 10% and 15% to resident and non-resident respectively of the rental value.²⁶² Corporation tax is 30%. The withholding tax is eventually treated as advance payment for corporation tax.

3.5.4 Transactional costs

Sales

Regarding sales, there are direct sales costs which are to be paid by the seller. Agent fee is charged at 6-10% of sale price. Lawyer's costs vary greatly from firm to firm but can be as high as 10% of the sale price. Capital gain tax is paid whenever real property change hands, it is 10% and 30% of the property's net gains realised for Tanzanian individuals and companies respectively. Non Tanzanians are charged 20% and 30% of the property's net gains for individuals and companies respectively; exemption is made for agricultural land having market value less than TZS 10 million²⁶³ and shares held by non-Tanzanian with shareholding of less than 25%.²⁶⁴ There is no set law as to what can be offset but there have been several cases where TRA was persuaded that the costs of construction and improvements could be offset against the

²⁶² See UNCTAD/ICC (2005), p. 24.

²⁶³ Refer the trend of Tanzania exchange rates in Table 5 of this work.

²⁶⁴ See PwC (2011), p. 36.

gain. Capital gain tax is paid after inflation adjustments. Other sales costs are valuation fee which is 0.01% of the property value, and a Consent fee paid to the Commissioner for Lands.

Purchases

The main cost is stamp duty which is payable by the purchaser on the Deed of Transfer, the rate is about 1% of the transactional price.

Leasing costs

Agents leasing fee is normally a full month's rent while management fee ranges between 3-6% of monthly rent. Other than legal fees, other costs include stamp duty which is payable on lease agreements, the costs is between 1% and 4% of the first year's rent, depending on the length of the term and this is payable by the tenant.

3.6 Real Estate Sector and the Property Market in Tanzania

3.6.1 Real Estate Market Players

The acquisition of competence is the key factor that regulates the process of growth and in particular, is responsible for its onset.²⁶⁵ There are many things in life that can be done by oneself; real estate is not one of them, real estate development requires a whole team of professionals to assist and guide even the most experienced developers.²⁶⁶ Construction and real estate are areas of economic activity with large numbers of professions each with different roles.²⁶⁷ Both the construction and real estate industries extensively use professional workers and independent specialist consultancies and practices.²⁶⁸ Practically no actor in the development process who can work alone, the process involves involvement of and interdependency among actors. However, one actor may perform more than one role in the development process. The discussion below illustrates the involvement of various players in the development process in Tanzania.

²⁶⁵ See Sacco/Segre (2009), p. 291

²⁶⁶ See Saft (1990), p. 41.

²⁶⁷ See Ball (2006), p. 200.

²⁶⁸ See Ball (2006), p. 195

3.6.1.1 Real Estate Developers

The outcomes of property development depend on social, political, economic and environmental factors, which are then affected by them. Property development outcomes also result from the involvement of a wide range of public and private actors.²⁶⁹ There are two crucial influences on developers' decisions to develop. The first is the character of the developers' operational environment (i.e. the property market) and the second is the way that developers perceive and respond to the opportunities and constraints presented by that environment particularly the way in which they formulate their expectations of development values, costs and hence profitability.²⁷⁰

Real estate sector in Tanzania is largely dominated by institutional developers/investors mainly pension funds, and government owned institutions (i.e. NHC and TBA), few large private investors and few foreign investors. However, it should be noted that, different developers do not have the same advantages, for instance, a study by Komu (2011)²⁷¹ shows that, NHC has the advantage of owning land in CBDs of major cities and towns in Tanzania. NHC however allows real estate development by joint venture arrangement with private (local or foreign) developers. Being a government agency, TBA also has different advantages compared with private developers. Pension Funds have also started acquiring land outside the cities for prestigious residential development. Currently, the country does not have large master property developers. However, Komu (2011) reveals that, NHC intends to become master real estate developers in the near future.

The private or organised development market is dominated by private enterprises, individuals and family owned businesses. The developments undertaken by these private enterprises are largely commercial and residential units largely aiming at luxury residential developments. Apart from individual property development undertaking, development is also undertaken by way of joint venture and build-operate-transfer (BOT). Although Public-Private Partnership (PPP) has started to transpire in the real estate sector, (for instance, University of Dar es Salaam and foreign developers

²⁶⁹ Fisher (2005), p. 158.

²⁷⁰ See Henneberry (1999), p. 1446.

²⁷¹ See Komu (2011), p. 165.

partnership in the famous ‘Mlimani City Project’) there is still lack of workable PPP framework for real estate developers.

Unlike some developing countries, for instance Kenya, Nigeria, Zambia, DRC, Botswana, South Africa Ethiopia etc,²⁷² Tanzania has an insignificant number of master developers/development companies. The few existing companies are just at their infant stage of development and are mainly engaged in the development of large commercial projects and executive residential houses/apartments/villas. Master developers here refer to firms or individuals who would acquire land, undertake building design, and get development approvals from different authorities. They undertake activities such as procuring all necessary land use planning, building permits, environmental permits, and other required documentation, for development of the identified projects, and soliciting financing and undertaking actual construction. Apart from NHC and TBA, there are no institutional real estate developers in the country. Likewise, there are no land buying or land servicing companies.²⁷³

Over the recent years, development companies, such as Group 4 Holdings have been actively engaged in property development as ‘*master developers*’ by constructing full serviced apartments and villas. The company has so far developed more than 10 serviced apartments/villas in different parts of Dar es Salaam. These include Ocean View Apartments, The Royale Orchard Inn, 24 Luxurious Apartments, Palm Residency, Marina Towers, Searock Challet, Slipway Towers, Apartments Hotels, Highland Villas and Golden Sands Serviced Apartment. Apart from a commercial complex (i.e. Haidery Plaza) which was developed in 1995, the rest of the residential

²⁷² Real estate development companies have so far carried out a number of property developments in Africa. Recently, Kenya and Russian partners (i.e. Renaissance Group), have embarked on property development in Nairobi city, the development which is known as ‘*Tatu City*’ comprising residential developments for an estimated 62,000 residents from a range of income groups, as well as retail, commercial, tourism, social and recreation facilities. The company is also in earlier stages in a series of similar developments in Zambia, Ghana and the DRC; See CAHF (2011), p. 4; Real Estate Investment Zambia (2011), p. 1; See <http://www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=238395>; for information on Renaissance Group property development in DRC see <http://www.themoscowtimes.com/business/article/renaissance-builds-city-in-congo/443611.html>. The real estate development sector in South Africa is much more developed, the country has a number of development companies; some of the companies are listed in http://www.easyinfo.co.za/catsearch.php?link_code=860&catlinker=1&searchword=Property%20Developers&heading=Property%20Developers. Just to mention a few, a number of property developments are also seen in Botswana and Ethiopia.

²⁷³ See Kironde et al. (2003), p. 33.

apartments came into being in 2000s. This company has also developed a residential apartment in joint venture with NHC. There are also a number of small development companies which engaged mainly in the development of residential apartments.

It is common for commercial development and big projects to engage contractors while for most of residential development (apart from apartments), individual developers merely use small private technicians. Although Tiwari and White (2010)²⁷⁴ note that, globally institutional investment in property over the last five decades started with mortgage and direct investment then gradually expanded into public securities (like REITs and shares of listed companies) and opportunistic and value-added investment, the situation is different in Tanzania. The sector is still at its infancy. Accessing mortgage finance is still a challenge, leave alone the existence of listed real estate companies and REITs.

3.6.1.2 Land Owners

These play an important role, whether actively or passively. For instance, these are individuals, companies or institutions actively initiating development either for sale, rent and/or improve their land values in different ways. Landowners can also initiate or create hurdles for property development. Although there is no land bank in Tanzania which can provide developers with ready plots for development, there are many hectares of undeveloped land which are owned by individuals. These are the ones who determine the level of prices of land. As a result, prices of land are highly inflated. There are also many land owners who cannot develop their land and are yet unwilling to sell it. This results into patches of undeveloped land even in the cores of urban areas e.g. the CBD of Dar es salaam has some virgin plots of land. The high prices of land retard the real estate development sector.

3.6.1.3 Development Team

These include contractors (for instance for building, civil, electrical and specialist works), facilities managers, architects, planners, quantity surveyors, property managers, valuation surveyors, land economists etc. Registered building contractors in Tanzania are categorised into seven classes. According to Contractors Registration Board (CRB), big contractors are those registered in Class I, II and III, medium

²⁷⁴ See Tiwari/White (2010), p. 82-83.

contractors are those registered in Class IV and V and small contractors are those registered in Class VI and VII.²⁷⁵ More than 70% of the majority of contracting enterprises in the construction industry in Tanzania are small, 21% are medium and only 6% are big contractors. Out of Class I building contractors, 34% are foreigners.²⁷⁶ The classes of registration reflect the capacity of the contractor to undertake the works in terms of value of a single contract.²⁷⁷ It is noteworthy that foreign contractors are restricted to register in classes I and II in building works. Class I building contractors have no limit on the value of the project, they can undertake any kind of building project. Class II contractors undertake projects of up to TZS 3,000 million. TZS 2,200 million for class III, TZS 1,200 million for class IV, TZS 600 million for class V, TZS 200 million for class VI and TZS 120 million for class VII.

Although there is growth in the number of local contractors, this growth is only in terms of the number of registered companies, large share of construction projects are undertaken by foreigners.²⁷⁸ In addition to that, most of the biggest construction tenders in the country are taken by foreigners who are in Class I. Despite being a minority in number (i.e. only 3%), generally foreigners took 62% and 58% of all the market share of construction works in the country in 2010 and 2011 respectively.²⁷⁹ Chinese construction firms are increasingly becoming dominant in the market due to their low prices.

3.6.1.4 Central Government and Local Authorities

Central government takes part in the development process by providing policies, rules and regulation on real estate development. On the other hand, local authorities (city, municipalities and town councils) are responsible for controlling urban planning, enforcing development control, and building regulations through a set of regulations and bye-laws. They are responsible for foreseeing that development complies with development control, health and safety, water and sanitation requirements. The local authorities also come in as public services providers for services such as school, hospital, markets etc. However, local authorities in Tanzania are not effective in

²⁷⁵ See Ntiyakunze (2011), p. 33.

²⁷⁶ Own interpretation based on information from Contractors Registration Board (CRB) website under <http://www.crbtz.org/Registeredcontractors.asp?page=1>.

²⁷⁷ See Ntiyakunze (2011), p. 42.

²⁷⁸ See CRB (2011), p. 36, Ntiyakunze (2011), p. 43.

²⁷⁹ See CRB (2011), p. 23; also see Daily News, 26th December (2011h).

enforcing the development control and other stipulated rules, regulation and by-laws which has resulted into haphazard property development in many parts of the country.

Service providers and agencies do not undertake property development directly but they are involved in the provision of services, utilities and infrastructure on land to be developed. For instance, in Tanzania there are agencies and public companies responsible for provision of electricity, water and infrastructure (such as roads, bridges etc).

3.6.1.5 Institutions of Higher Learning

Tanzania does not have many institutions of higher learning that offering courses related to real estate disciplines. There is only one university, Ardhi University (ARU), which specialises in real estate related studies. The University is actually the largest one stop centre specialising in real estate disciplines of study. ARU stands as one of the players in real estate development due to the fact that, academic members of staff and graduates are engaged as consultants and professionals in various real estate development projects. Also ARU produces graduates most of whom are immediately absorbed by the market as real estate investment analysts, property managers, facilities managers, land administrators, planners, real estate valuers, architects, quantity surveyors, land surveyors, environmental engineers, designers etc.

ARU has six academic schools covering Real Estates Studies; Architecture and Design; Construction Economics and Management; Geospatial Sciences and Technology; Urban and Regional Planning; and Environmental Sciences and Technology. Some of the undergraduate (B.Sc.) degree courses offered at Ardhi University include Architecture; Landscape Architecture; Interior Design; Building Economics; Building Survey; Construction Management; Civil Engineering; Urban and Regional Planning; Rural Development Planning; Housing and Infrastructure Planning; Economics; Land Management and Valuation; Real Estate Finance and Investments; Property and Facilities Management; Geomatics; Geodetic Science; Geo-informatics; Information Systems Management; Accounting and Finance; Environmental Engineering; Environmental Science and Management; Environmental Laboratory Science and Technology; Municipal Services Engineering; and Disaster and Risks Management.

3.6.1.6 Professionals and Professional Bodies

Key professionals include architects, planners, engineers, construction economists/quantity surveyors, land surveyors, land economists/valuation surveyors, estate agents, project managers, solicitors, etc. acting in their individual capacities or as practicing firms. Professionals normally provide professional advice on various aspects of property development. Real estate professionals are expected to provide all necessary services regarding property development and investment. For instance, Ratcliffe and Stubbs (2001)²⁸⁰ list down the services during property development that can be provided by real estate professionals which include:

- Supplying general property investment advice
- Buying and selling interests in land and property on behalf of clients
- Developing and applying analytical techniques for evaluating the performance of the property market
- Disseminating relevant information to clients in a form that facilitates their decision-making
- Predicting possible future changes in market performance among the various property sectors and between alternative investment opportunities, and
- Increasingly, adopting an international approach to real estate investment

Involvement of real estate professionals may depend either on the maturity of the real estate development sector and/or the community perception and willingness to use their services. For instance, in Tanzania, it is only common for big development projects to use the services of real estate professionals during the development process. However, the country has a number of professional bodies/organisation which in one way or another are involved in the real estate sector; these include Architects and Quantity Surveyors Registration Board (AQSRB), Engineers Registration Board (ERB), Contractors Registration Board (CRB) National Council of Professional Surveyors (NCPS). In addition to that, many land economists are also members of national and regional professional bodies such as Tanzania Institution of Valuers and Estate Agents (TIVEA) and African Real Estate Society (AfRES).

²⁸⁰ See Ratcliffe/Stubbs (2001), p. 15.

3.6.1.7 Financial Institutions

A developer is a key coordinator and catalyst for property development,²⁸¹ however, developers are not free agents, their ability to pursue development decisions, formed on whatever basis, are contingent upon an adequate supply of development finance.²⁸² The characters of the developers' operational environment i.e. the property market and the way she/he perceives and responds to the opportunities and constraints presented by that environment are crucial influences on developer's decisions to develop.²⁸³ Unless a development is being financed entirely with developer's own capital (as for the case of all pension funds in Tanzania) or that of a partner, financial institutions as providers of finance have a very important role in the development process. It is clear that, the environment within which the real estate operates has direct impact on the growth of that sector. The availability of finance is an essential prerequisite for the vibrancy of property development in Tanzania. However, since the collapse of Tanzania Housing Bank (THB) in 1995, for instance, there is no other special financial institution which provides long-term mortgage lending in the country. The absence of a specialised housing finance institution since the demise of THB has been cited as one of the reasons which makes housing construction a difficult process in the country especially for the low income earners.²⁸⁴

At present the mortgage market in Tanzania is minute with three banks i.e. Commercial Bank of Africa (CBA), Azania Bank and Stanbic Bank (these banks offer long-term loan of 20, 15 and 15 years respectively) active in the market. Together, these banks have a combined mortgage portfolio of about TZS 100 billion (\$61,6 million) and mortgage debt to GDP was reported to be 0.30% in 2011.²⁸⁵ CAHF (2011) provides further that, none of the loan portfolios of these three banks exceed a couple of hundred loans. Other mortgage products which have recently been introduced by a number of financial institutions such as Exim Bank, CRDB Bank, Bank of Africa (BOA), Kenya Commercial Bank (KCB) etc. are offered on short-term basis, ranging from (5-10 years). Mortgage financing institutions offer loan terms that range from 5 to 20 years, with an interest rate of between 16–20%. The average mortgage size is

²⁸¹ See Healey (1991b), p. 224.

²⁸² See Antwi/Henneberry (1995), p. 238.

²⁸³ See Henneberry/Rowley (2002), p. 101.

²⁸⁴ See UN-HABITAT (2005b), p. 15; Kironde et al. (2003), p. 1; also see Moss (2003), p. 9.

²⁸⁵ See CAHF (2011), p. 101.

between TZS 50 million–TZS 350 million (about \$31,000–\$215,000), and so most clients are high-income earners.²⁸⁶

Property development financing is poorly developed in Tanzania. At present, housing finance is extremely limited. Housing construction is financed mainly by cash or incrementally (which can stretch over years). It is argued that, nearly 98% of houses in urban areas in Tanzania are financed informally through incremental method.²⁸⁷ This situation remains exacerbated by a 6% annual growth in the urban population. Following recent passing of the Mortgage Finance (Special Provisions) Act No. 17 of 2008, and the Unit Titles Act No. 16 of 2008; apart from Azania Bank, Commercial Bank of Africa (CBA) and Stanbic Bank, more banks and housing microfinance are getting attracted into long-term mortgage lending. As of March 2012, the Central Bank of Tanzania (BoT) had listed a total of 29 commercial banks and 5 financial institutions in Tanzania mainland,²⁸⁸ of which only about 30% offer short-term loan for housing development or rehabilitation purposes. It should be noted that, there are other commercial banks such as Stanbic and Barclays which have for sometime been offering mortgage to their own employees only. On the other hand, there are few housing microfinance institutions (MFI) involved in providing housing loans for low and middle income majority. The interest rate currently ranges between 16%-20% for Tanzania Shillings based and between 7%-10.5% for US \$ based loans.

Among the efforts to address the problem of long-term finance for housing development, the government of Tanzania has established a Housing Finance Project (HFP) with the support of the World Bank (through International Development Association (IDA) credit) to spearhead the reintroduction of mortgages in Tanzania. Tanzania Mortgage Refinance Company (TMRC) was established in 2011. TMRC is a financial institution owned by some banks with the sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios. TMRC is a licensed non-deposit taking institution, authorized by the Bank of Tanzania (BoT) for the purpose of conducting its business, and by the Capital Markets and Securities Authorities (CMSA) for the purpose of bond issuance. TMRC is a single purpose

²⁸⁶ See CAHF (2011), p. 102.

²⁸⁷ See CAHF (2011), p. 15; also see Kironde et al. (2003), p. 31 and p. 72.

²⁸⁸ See BoT website at <http://www.bot-tz.org/BankingSupervision/BankingSupervision.asp>

vehicle limiting it to its core activity of refinancing mortgages. TMRC serves as a secure source of long-term funding at low interest rates while ensuring sound lending habits among banks. TMRC started issuing mortgages to its member banks in 2012.

TMRC develops the housing mortgage finance market through the provision of medium and long-term liquidity to mortgage lenders. Up to August 2012, TMRC had 10 member banks in Tanzania Mainland which include CRDB Bank, National Bank of Commerce (NBC), National Microfinance Bank (NMB), Exim Bank, Azania Bank, Tanzania Investment Bank (TIB), BancABC, Dar Es Salaam Community Bank (DCB), NIC Bank and Bank of Africa (BOA).²⁸⁹ However, there are no restrictions on other banks or other eligible institutions to participate in the equity of TMRC. Azania Bank was the first bank to receive TMRC mortgage refinancing. Azania bank received a total amount of TZS 4.2 billion in 2012. Compared to other economic sectors in the country, lending to real estate sector has been very minimal. Table 10 shows commercial banks lending to the sector between 2007-2010.

Table 10: Commercial Bank Lending to the Real Estate between 2007-2010

Year	2007	2008	2009	2010
Amount (TZS million)	49,137.9	76,446.0	101,055.8	240,162.2
US \$(million)	34.4	53.6	70.8	168.3
Growth (%)		55.6	32.2	137.7

Source: MFEA (2011), p. 101.

^{*}The exchange rate (TZS/US \$) for the year 2010 of TZS 1,427.0 for US \$ 1 is used. For more details on the trend of Tanzanian exchange rates refer to Table 5 of this work.

Tiwari and White (2010)²⁹⁰ provide that, countries vary in the extent to which they view property as an investment asset. In some countries, real estate is a distinct asset class competing for investment funds from other assets of bonds and equities; in others, it does not yet attract significant investment. To show the significance of the real estate sector to the banking sector, Maennig (2012)²⁹¹ mentions that, real estate loans accounts for 55% of all loans in Germany. The observation by Tiwari and White (2010) reflects the situation in Tanzania regarding lending to the real estate sector. For

²⁸⁹ See TMRC website-<http://www.tmrc.co.tz/index-3.html>

²⁹⁰ See Tiwari/White (2010), p. 3.

²⁹¹ See Maennig (2012), p. 19.

instance, BoT (2010a),²⁹² shows lending to the different sectors of the economy with only 1.9% to the real estate sector, compared to 12.1% (trade), 7.2% (transport and communication), 10% (manufacturing), 7% (agriculture), and 16% (social and personal services) for the year ended June 2010. Comparing with other economic activities, the proportion of bank lending devoted to the real estate sector is small.

In Tanzania, real estate investment constitutes about 2.7% of GDP and less than 10% (6%) of GCF.²⁹³ Regarding the ratio of credit to GDP in Tanzania, UN-HABITAT (2008)²⁹⁴ shows that in 2000 annual domestic credit provided by the banking sector to the housing sector averaged 12% of GDP. Also in comparison with some other countries in Africa, Tanzania is as shown in Table 11, one of the countries with the lowest mortgage/GDP ratio.

Table 11: Tanzania Mortgage Debt/GDP (%) in Comparison with some other African Countries in 2010

Country	Mortgage Debt/GDP (%)	Real per capita GDP (US \$)
Tanzania	0.3	453
Nigeria	0.4	697
Uganda	1.0	374
Kenya	2.5	464
Senegal	2.0	532
Rwanda	2.4	364
Ghana	0.5	547
Botswana	2.3	4,602
Namibia	20.0	2,904
South Africa	31.0	3,758

Source: IMF (2012), p. 91; CAHF (2011), p. 6.

Some studies (for instance, UNCTAD/UNDP (2007); Rothenberger (2010)²⁹⁵) note that, the banking system does not function properly. This is due to land laws which do not guarantee security of ownership; land laws are also blamed for excessive protection of borrowers in case of default. The same studies further note that, there are currently no credit reference agencies in Tanzania which could contribute to establishing the necessary degree of transparency within the credit market.

²⁹² See BoT (2010a), p. 247.

²⁹³ See TMRC (2011), p. 5.

²⁹⁴ See UN-HABITAT (2008), p. 5.

²⁹⁵ See UNCTAD/UNDP (2007), p. 158; also see Rothenberger (2010), p. 99.

In most of developed countries, pension funds and insurance companies form part of financiers by providing short term construction funds and long term financing for real estate development. Apart from financing their own property development either for their own occupation, sale or lease, pension funds in Tanzania do not provide direct funding for property development purposes to private developers. However, they do finance a number of institutional property and infrastructure development such as construction of bridges, roads, universities, dispensaries, student hostels, hire-purchase housing for members etc. Some of such projects financed by pension funds include: University of Dodoma (for 40,000 students), Nelson Mandela Institute of Science and Technology, Mabibo hostel (for 4,000 University of Dar Es Salaam students), Kigamboni bridge, Tanzania People Deference Force housing (for 248 families) business park for petty traders, popularly known as *Machinga Complex* (for more than 5,000 traders in Dar es Salaam), Government Houses (for 200 families in Dar es Salaam), 252 Government Houses (CDA Dodoma), Mkuranga hospital (Dar es Salaam), and construction of a Chancery building (Nairobi, Kenya). Following the shortage of electricity in the country, NSSF is on the verge of investing in electricity generation, which will result into the production of 150 megawatts to be fed into the national power grid.²⁹⁶

Financial assets/instruments are not widely used in the Tanzanian real estate industry. The few financial instruments which are used are largely common with pension funds and are in the form of equity, government and corporate bonds, and lending to companies and financial institutions. One pension fund is also offering finance to buyers of the housing it is developing.²⁹⁷ As it can be seen in Table 12 there is also a number of commercial buildings which have been financed jointly by a number of pension funds in the form of private equity holdings.

²⁹⁶ See HIFADHI News (2011), p. 10; under http://www.nssf.or.tz/index.php?option=com_docman&Itemid=233

²⁹⁷ See UN-HABITAT (2005b), p. 15.

Table 12: Pension Funds' Real Estate Related Private Equity Holdings

	NSSF	PPF	PSPF	LAPF
International House Properties Ltd.	-	46%	36%	-
Ubungu Plaza Ltd.	35%	-	35%	-
Pension Properties Ltd.	35%	25%	30%	10%
PPF/NHC IPS Building Co Ltd.	-	50%	-	-
Azania Bank Ltd.*	40%	35%	14%	-
Quality Plaza Ltd.	-	-	100%	-
Hifadhi EPZ Properties Ltd.	100%	-	-	-

Source: Kusiluka (2012), p. 115.

**Apart from other banking operations, Azania Bank is one of the few banks in Tanzania issuing long-term mortgages.*

In addition to financial institutions, there are a number of microfinance institutions for housing. Most of these institutions are in the form of NGOs (such as WAT-Human Settlements Trust) which provide loans for housing construction, house upgrading/improvement and for purchase of plots; also there are a number of small housing cooperative societies which finance housing.

In addition to the real estate market players discussed above, other parties which have interest in real estate development in Tanzania include; producers and suppliers of construction materials and tenants. Donors and Non-Governmental Organisations (NGOs) also have interest especially in housing/shelter development.

3.6.2 Market Transparency

Real estate market functions much more efficiently if there is a body of publicly available information regarding its activities. However, immaturity evidenced throughout the SSA region's real estate markets is accompanied by a lack of transparency, which, in turn, remains to be a major barrier to foreigner participation.²⁹⁸ As for many developing countries, the Tanzanian real estate market is not well developed, and it is difficult to get reliable data on the real estate operations. Lack of official data on the demand and supply of, for instance, office and residential space is mentioned to retard investment attractions in the real estate sector in Tanzania.²⁹⁹ Due

²⁹⁸ See Cushman/Wakefield (2006), p. 1 as quoted from Rothenberg (2010), p. 84.

²⁹⁹ See Daily News, 3rd October (2011b).

to the lack of transparency of real estate markets in general³⁰⁰ and due to the additional lack of relevant findings on real estate markets in SSA,³⁰¹ possible factors that influence the foreign real estate investment decision making process have to be assumed as an explanation for these aberrations. However, apart from South Africa, the Jones Lang Lasalle Real Estate Transparency Index (2012)³⁰² reports emerging levels of transparency in some Sub-Saharan Africa namely Angola, Botswana, Ghana, Kenya, Mauritius, Nigeria and Zambia. These countries were covered by Jones Lang Lasalle index for the first time in 2012. Another study by Eichholtz et al. (2011)³⁰³ mentions foreign investors' lack of local expertise and the limited access to local market information as critical issues concerning cross-border property investments.

However, unavailability of relevant information on real estate has been a plight of professionals even for developed countries as well. For instance a study by Voigtlaender (2012)³⁰⁴ shows that, despite the great significance of real estate for the economy in Germany, the leading indicators for property market, especially those concerning prices and rents have been neglected in the official statistics. This makes it extremely difficult for foreign market participants to evaluate the German real estate market at the time being. The above findings show that, availability of real estate market information is one of the main performance drivers of cross-border real estate investment, development and its activities.

3.6.3 Real Estate Sector and the Economy

The trend of the real estate growth is seen on its contribution to the GDP in the country. Despite its low share of GDP, real estate development projects have increased significantly compared to the period prior to institutional reforms. Apart from the general economic data provided by the Bank of Tanzania, there is no other source of reliable information for the real estate industry in the country. This makes it difficult to project the trend of growth of the real estate sector in the country with accuracy. Figure 17 shows the contribution of real estate and other sectors of the economy to the country's GDP from 1992-2011. The Figure shows the contribution of some sectors of the economy with real estate sector exhibiting marginal contribution to the country's

³⁰⁰ See Rothenberg (2010), p. 38; also see Gallimore/Gray (2002), p. 112.

³⁰¹ See Rothenberg (2010), p. 39; see also Antwi et al. (2008), p. 13.

³⁰² See Jones Lang Lasalle (2012), p. 35-36.

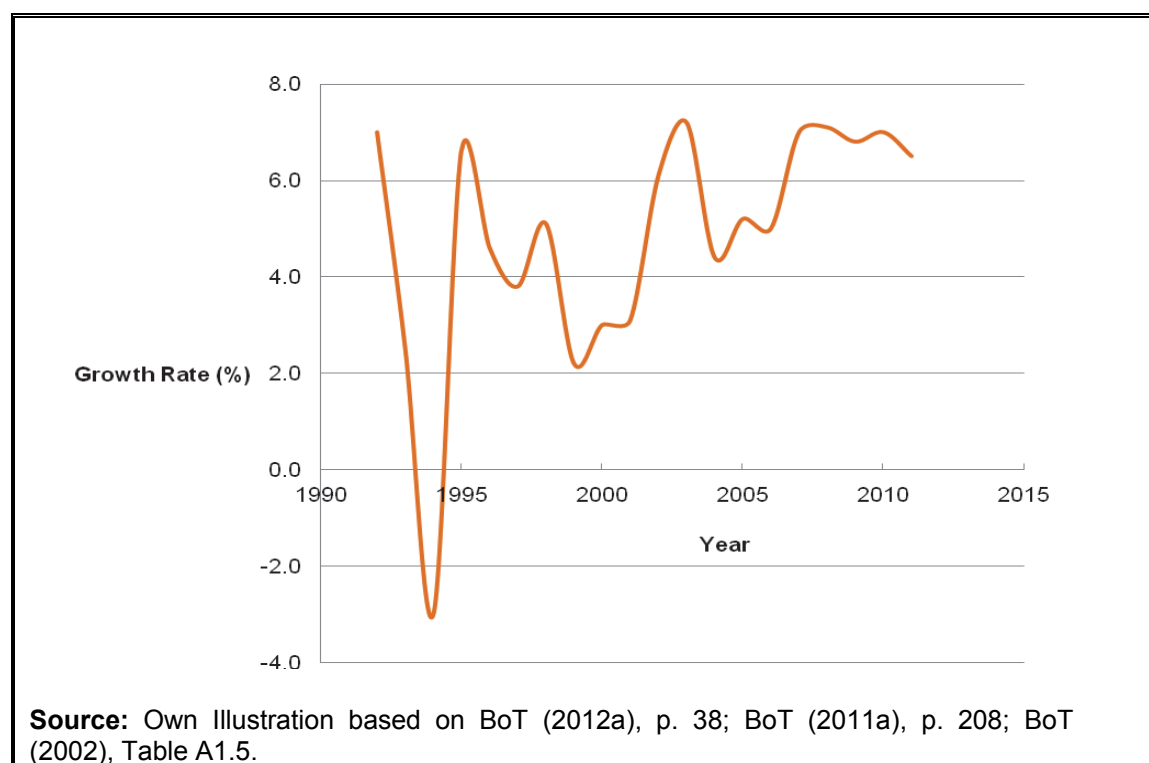
³⁰³ See Eichholtz et al (2011), p. 155.

³⁰⁴ See Voigtlaender (2012), p. 7 and p. 16.

GDP throughout the analysis period. Unlike other sectors such as mining and quarrying which started with small contribution to the GDP, the trend of sector's contribution kept on increasing yearly.

Available data on the growth rate of the real estate sector also shows marginal growth of the sector. The trend of the sector's growth compared with other economic sectors from 1992-2011 is shown in Figure 19.

Figure 19: The Trend of Real Estate and Business Services Growth Rate from 1992-2011



Note: As for the analysis of real estate sector contribution to the GDP, starting from 2006 to date the figure for the real estate growth rate is also combined with the business services (i.e. not a stand-alone sector)

As it can be seen in Figure 19, analysis of the real estate sector alone shows that, the sector had attained its highest growth rate of 7.2% (2003) and 7% (1992). Although the sector has been seen to be growing since the economic reforms (especially over the last decade), the growth seems to be only in absolute terms. The average growth of real estate sector between 1992 and 2006 was 4.2%. Between 2007 and 2012, economic data for real estate sector was combined with business services. The real

estate, combined together with business services, recorded an average growth of only 4.5% between 1992 and 2012.

3.6.4 The Role of Real Estate in Fostering Economic Growth³⁰⁵

The current housing deficit in Tanzania is estimated at 3 million units. This is equivalent to US \$ 180 billion; the annual growth in demand is 200,000 units which is equivalent to US \$ 12 billion. This could contribute TZS 120 billion (US \$ 90 million) to the economy in the form of Value Added Tax (VAT), property tax, land rent, Pay-As-You-Earn (PAYE) and corporation tax. The current deficit coupled with the annual growth in demand and the urban population growth; offer a big hyper-growth opportunity for the national economy. World Bank (2010b)³⁰⁶ notes that, in Dar es Salaam city, improvement in land management institutions could open the door to increased property revenues for municipalities, more land use and sales revenues for the government, and complementary private finance.

In other countries, real estate sector contributes highly to the GDP. For instance, Deutsche Bank (2010)³⁰⁷ shows that, commercial real estate as percentage of GDP in 2010 was 28% for US, 28% for UK, (25% and 6%)³⁰⁸ for Germany, 18% for France, 15% for Italy and 8% for Spain. ULI and PwC (2010)³⁰⁹ indicate that, the real estate sector in India and China constituted 5% and 12.6% of the GDP respectively in 2009. Economic data for many developing countries do not provide information on real estate sector as a stand-alone sector of the economy. The available data combine real estate with other sub-sectors in the category known as 'Finance, Insurance, Real Estate and Business Services', which makes it difficult to extract exact figures of real estate contribution to country's GDP. For instance, real estate and related sectors of the economy accounted for 20%-30% of Malaysia's GDP in 2007.³¹⁰ The real estate and construction sectors contributed to 9.4% to Indonesia's GDP in 2010.³¹¹ In 2007, the

³⁰⁵ See UNESCO National Commission of URT (2011), p. 219; see NHC (2010), p. 5; see Daily News, 11th February (2010); also see NewAfrican, 2nd December (2011).

³⁰⁶ See World Bank (2010b), p. 137.

³⁰⁷ See Deutsche Bank Research (2010), p. 4.

³⁰⁸ While commercial buildings account for 25% of German GDP, residential buildings account for roughly 6% of German GDP in 2010; See Deutsche Bank Research (2011), p. 1; and also see Deutsche Bank Research (2010), p. 4.

³⁰⁹ See ULI/PwC (2010), p. 9.

³¹⁰ See Shah (2007), p. 15.

³¹¹ See ANTARA (2011).

real estate sector accounted for 8% of total GDP in UAE.³¹² For the case of African countries, AfDB et al. (2011)³¹³ indicate that, finance, real estate and business services contribution to the GDP was as follows: South Africa (21.2% in 2010), Rwanda (14% in 2010), Botswana (12.4% in 2010), Tanzania (11.8% in 2009), Namibia (11.7% in 2009), Kenya (9.7% in 2009), Uganda (9.5% in 2010), and Burundi (3.2% in 2010). The available data for the real estate sector standing alone in Tanzania for 2006 shows that, the sector constitutes 2.7% of the country's total GDP.³¹⁴

Two recent studies both carried out in Germany, provide an understanding on the size of real estate market and its contribution to the economy. A study by Maennig (2012)³¹⁵ provides that, the value of real estate assets in Germany is estimated to be approximately 9 trillion euro, which is triple the German gross domestic product. However, another study by Voigtlaender (2012)³¹⁶ puts that, given its size and overall economic importance, the property market is not an isolated phenomenon but inextricably woven into the fabric of the economy in Germany, and for that reason, analysis of real estate industry is not a straight forward task.

3.6.5 Significance of other Economic Sector to the Real Estate

Kusiluka and Lucian (2008)³¹⁷ note that, demand for space in prime commercial properties in Tanzania generally increases with the growth in economic activities. This study presupposes that, with the upward economic growth in Tanzania, the office property segment will continue to show increasing trends as well. The increased share of the services activities (which include trade, hotels and restaurants, transport, communication, financial intermediation, real estate and business services, public administration, education, and health) in the country's GDP is one of the indicators to suggest steady growth of the office segment. For instance, for the past five years the share of services sector to the GDP was more than 40%. At the time being, the services sector is actually of greater significance for the economic growth than other sectors such as agriculture and manufacturing. Its share to the GDP was 43.3%

³¹² See Kumar et al. (2010), p. 3.

³¹³ See AfDB et al. (2011), p. 5 of each country's report.

³¹⁴ See the trend of the Tanzanian real estate sector contribution to GDP in Figure 17 of this work.

³¹⁵ See Maennig (2012), p. 19.

³¹⁶ See Voigtlaender (2012), p. 4.

³¹⁷ See Kusiluka/Lucian (2008), p. 15.

(2006), 43.3% (2007), 43.8% (2008), 43.6% (2009), and 43.9% (2010).³¹⁸ The increased growth of services sector in the country is very likely to increase the need for more office space as well.

Population changes are among the key parameters that shape real estate demand.³¹⁹ Keeping other factors constant, a growing population requires more living space than a shrinking population. Demographic trends in Tanzania show an increase in the population, which suggests the increase in demand for space in the country. However, development decision among other things should take into account the income of the majority of population. It becomes obvious that, the growth of the real estate sector in Tanzania largely depends on the positive performance of the country's economy.

Baum (2009)³²⁰ insists that, the economy is the basic driver of occupier demand, and in the long-term, investment returns are produced by occupiers who pay rent. Piazzolo (2012)³²¹ analyses 12 countries (Germany, UK, Finland, USA, Sweden, France, Netherlands, Australia, Ireland, New Zealand, Canada and South Africa) to find out the correlation of nominal GDP growth and total property return. The author finds out that, countries with a higher GDP growth tend to have a higher total property return. The findings by Piazzolo (2012) support the underlying assumption of this study that, the investment and development in property activities in Tanzania would continue to increase as far as the GDP growth continues to increase.

3.6.6 Government Initiatives in Housing Provision in Tanzania

The government of Tanzania has been involved directly and indirectly in the development of the housing sector since independence. The government also has been playing a facilitation role by creating an enabling environment for other sectors such as financial sector and private sectors to take part in housing development. The government established National Housing Corporation (NHC) in 1962. NHC was empowered amongst other things to undertake slum and squatter clearance, and also to construct low cost houses. Currently, NHC is also involved in the construction and sale of properties through mortgage and direct purchase. Government initiatives in the

³¹⁸ See MFEA (2011), p. 14.

³¹⁹ See Just (2012), p. 27.

³²⁰ See Baum (2009), p. 5.

³²¹ See Piazzolo (2012), p. 365.

housing sector could also be seen in the establishment of institutions such as the Permanent Housing Finance Corporation of Tanganyika (PHFCT) in 1967.³²² PHFCT was established so as to offer housing loans to the middle and high income households.

Due to the operational inefficiency and suffering heavy losses, and total dependence on government subventions,³²³ in 1990 the government transferred to NHC all properties which were held by the Registrar of Building (RoB). The government also undertook squatter upgrading and site and services programme in the 1972. The program aimed at providing surveyed and serviced plots to new areas and upgrading of unplanned areas through the provision of services such as electricity, water, roads, health care, school, sanitation facilities etc. Tanzania Housing Bank (THB) was established in 1973 so as to provide housing mortgage. The Housing cooperatives were also formed in 1970s. A Revolving Loan Fund was established in 1992 with the aim of financing construction of new houses, renovation, completion of under-constructed, and purchase of houses for all government employees. Tanzania Building Agency (TBA) was established in 2002 for the purpose of providing housing to the public servants. In 2010, the government facilitated the establishment of Tanzania Mortgage Refinance Company (TMRC) whose aim is to refinance banks offering mortgage finance.

Lack of finance has been cited by many authors as one of the reasons which hinder property development activities in Tanzania's real estate market.³²⁴ With reference to other countries, the governments (central or local) in developed countries such as USA, UK, Canada, Australia, Belgium, Germany, Austria, Bulgaria, Denmark, Finland, France, Germany, Italy, Netherlands, Sweden etc. have either budget allocation, special mechanisms (e.g. provision of grants, public loans, interest rate subsidies or public guarantee), schemes or incentives to address housing need.³²⁵ Apart from developed countries, there are some governments in developing countries such as

³²² See Kaitilla (1990), p. 63.

³²³ See Makoba (2008), p. 32.

³²⁴ See Kironde et al. (2003), p. 31; Rothenberger (2010), p. 97; and also see Chiragi (2000), p. 1.

³²⁵ See US Department of Housing and Urban Development (2010); see HM Treasury (2011); see Canada Federal Budget (2011); and see Jon Eastgate 99 Consulting (2009). For more information on the existence of schemes, subsidies, incentives, and provision of social housing/publicly subsidies housing in Europe, see CECODHAS Housing Europe (2011), p. 22-35; also see Golay/Melik (2007), p. 49-57.

Zimbabwe, Bangladesh, Turkey, Democratic Republic of Congo, Singapore, Nepal, Malawi, China, Senegal, Mauritius, Burundi, Mali, Zambia, Morocco and South Africa³²⁶ which take part in the housing sector by either providing direct state funding to housing, or providing mechanism for delivering housing to the public. Kyessi and Germain (2010)³²⁷ observe that, despite a conducive environment of good government policies and regulatory framework in Tanzania, until recently there was a lack of commitment and sound political will in dealing with housing needs of the urban poor.

3.6.7 The Case of Dar es Salaam

To shed some light on the Tanzania's real estate market, this study draws examples from Dar es Salaam city. Like many rapidly developing African cities, Dar es Salaam is undergoing great change in all of its property uses. It is estimated that more than 75% of the pension funds modern real estate development activities are taking place in Dar es Salaam.³²⁸ Investment in property in the country is generally in the form of direct investment. Indirect property investment vehicles are not well developed and are mainly in the form of private equity vehicles mainly practiced by the pension funds in joint venture either within themselves or with few larger investors in the country. The pension funds hold indirect property investments through acquisition of shares in companies (private equity) which invest in real estate.³²⁹

At present, data on the actual size of the Tanzania real estate stock is not available. However, government owned institutions i.e. NHC and TBA own the largest real estate stock followed by the pension funds. Most of the real estate stock of government owned by institutions (especially NHC) comprises rundown and old buildings. However, many of such properties are located in prime areas, making them very valuable for re-development.³³⁰ Regarding commercial real estate stock, many modern

³²⁶See Zimbabwe Broadcasting Corporation (2011); UN (2011), p. 13; See Bangladesh Budget Speech 2011-2012. More information on government's initiatives in the provision of housing in different countries is provided in the UN: Human Rights Council Working Group on the Universal Periodic Review from (2008-20011). Housing in many countries mentioned is regarded as constitutional rights, therefore, the governments take part to enable affordable housing for the majority; see also Golay/Melik (2007), p. 49-57.

³²⁷ See Kyessi/Germain (2010), p. 200.

³²⁸ See Mpogole (2006), p. 20.

³²⁹ See Kusiluka (2012), p. 6.

³³⁰ See Kusiluka (2012), p. 8.

large commercial properties are owned by pension funds. NHC, for example, has in the recent past engaged in modern commercial projects. On the other hand, large portion of modern commercial development owned by private individuals are located outside the CBD. Foreigners own commercial properties mainly at the CBD and residential properties in some prime residential neighbourhoods.

As pointed out earlier, the real property market in Tanzania has evolved along with different institutional phases. The sector is still small and underdeveloped. However, following the liberalisation policies which started being instituted from 1984, a more active property market ensued.³³¹ It was during the reform period when substantial investment in real estate sector was recorded. Today, the largest market for investors in the real estate sector in Tanzania can be found in commercial properties. There are also opportunities in the development of industrial and residential spaces as well.³³² Trade liberalisation triggered off establishment of many private businesses which among other things attracted foreign investors. Owing to such developments, demand for accommodation to fulfill the taste of various space users increased tremendously. As a result, prime commercial and residential properties started emerging in the market.³³³ Dar es Salaam, Arusha and Mwanza are the urban centres with pronounced developments in the property market.

It is not possible to make an accurate estimate of demand for commercial, retail, industrial or residential properties since no accurate data exists. However, housing deficit in Tanzania is estimated at 3 million units³³⁴ and growing at a rate of 200,000 units per annum.³³⁵ The problem is aggravated by high rate of urbanisation. According to statistics, the urban population has grown from 14.8% in 1980 to 37.5% in 2002 and it is expected to reach 46.8% by 2015. World Bank (2010a)³³⁶ indicates that, between 1990 and 2001, average annual demand for plots in Dar es Salaam was 20,000 units while the average annual supply was under 700 units, leaving 97% of the recorded demand unfulfilled. At the national level, the annual demand for surveyed land

³³¹ See Geho (2001), p. 379; Mpogole (2006), p. 13.

³³² See TanzaniaInvest (2008); also see Knight Frank (2009), p.30.

³³³ See Mpogole (2006), 13-14.

³³⁴ See CAHF (2011), p. 102; UNESCO National Commission of URT (2011), p. 217; NHC (2010), p. 3; also see Daily News, 11th February (2010).

³³⁵ See UNESCO National Commission of URT (2011), p. 217.

³³⁶ See World Bank (2010a), p. 2.

between 1991 and 2001 was 150,000 plots, while the supply averaged 8,000 plots annually, leaving annual shortfall of 95%.

Tanzania's housing market is characterised by lack of mortgage finance, rapid urban population growth, and little development activity.³³⁷ Tanzania, like other African countries, suffers from a severe shortage of good quality housing. The shortage is growing every year compounded by the lack of long-term housing finance, the lack of a formal residential housing construction sector, difficulties with land rights, rapid population growth, and urbanisation. Although there are a number of financial institutions which currently offer loans for housing construction or rehabilitation, they only offer short-term loans. More recently, the government established a mortgage company namely Tanzania Mortgage Refinance Company (TMRC) with the aim of refinancing housing mortgages. However the company is still operating at a low capital to enable a large number of people to access the loans. TMRC is financed by a loan of only US \$ 30 million from the World Bank.

It is argued that an important trend in the property development sector has been the internationalisation of real estate activities and property developers.³³⁸ As for other countries worldwide, apart from pension funds, institutional developers and private investors, foreigners have also invested in major commercial real estate developments mainly in Dar es Salaam city and in hotel development in tourist cities of Tanzania. The comparison of rents and prime yield in East African and other Africa cities is shown in Table 13. It should be noted that, a substantial readjustment in the rent charges and yields is taking place from individual countries.

Compared with other urban and economic centres in East Africa and other African countries, Tanzania is among the countries with high rental rates in Africa. Knight Frank (2011) shows that, in comparison with other African countries, Tanzanian real estate market still depicts higher rental charges, especially in commercial and residential spaces. Rents and capital values in Dar es Salaam have traditionally been very high; over long time periods, the city has maintained relatively low levels of vacant

³³⁷ See Nyerere-Inyangete (2010), p. 27.

³³⁸ See Eichholtz et al. (2011), p. 153; see also Tiwari/White (2010), p. 82.

grade A office accommodation.³³⁹ However, the industrial market is highly undeveloped in Dar es Salaam city. Regarding retail market, Knight Frank (2011)³⁴⁰ indicates that, apart from the sophistication of South Africa's modern malls, street trading (by the side of the road) is still dominant retail activity in many African countries.

Table 13: Rental Charges and Prime Yield for Some African Countries for 2011

Parameter	Algeria	Angola (Luanda)	Botswana	Chad	DRC*	Ghana	Kenya	Namibia	Nigeria (Lagos)	Rwanda	South Africa (Johannesburg)	Tanzania	Uganda	Zambia
Office (US \$ per m ² /Month)	40	150	16.5	30	45	30	10	16	70	15	21	20	17	20
Yield (%)	10	8	9	12	12	10	9	10	10	10	9	10	10	11
Retail (US \$ per m ² /Month)	55	100	30	35	35	40	31	35	45	25	40	16	28	35
Yield (%)	9	10	10	10	15	9	11	10	9	12	8	10	11	10
Industrial (US \$ per m ² /Month)	6	16	5	6	8	4	3.6	6	8	1.5	7	5	6.5	5
Yield (%)	12	8	13	16	13	12	13	12	12	14	10	10	13	14
Residential** (US \$ per Month)	4,500	20,000	2,000	4,500	8,000	4,000	4,000	2,500	11,500	2,500	5,500	7,000	4,500	3,000
Yield (%)	8	6	10	8	10	9	7	8	8	6	5	7	8	12

Source: Own Illustration based on Knight Frank (2011).

*DRC stands for Democratic Republic of Congo

**Residential rates are based on 4 bedroom executive house in prime location

As shown in Table 13, apart from Luanda (Angola) and Lagos (Nigeria) which are regarded to be among the expensive cities in the world,³⁴¹ Tanzania is among the countries with high rent especially for residential and office space. Brennan and Burton

³³⁹ See Rothenberger (2010), p. 100.

³⁴⁰ See Knight Frank (2011), p. 1.

³⁴¹ Among other countries in Africa, Angola and Lagos ranked first and eighth in Africa's ten most expensive cities in 2011. In global ranking, these countries are also among the global top 45 most expensive cities. Angola ranked first while Lagos ranked forty first in 2011 global ranking; See CAHF (2011), p. 4. Rent in Angola is also said to exceed those of almost all major real estate markets in Europe in 2007, see Rothenberger (2010), p. 83.

(2007)³⁴² have also once argued that, for all of its economic difficulties, the value of land and property in Dar es Salaam is reaching unprecedented heights. The figures on property yield show that, Tanzanian real estate yield in office space is more or less similar with other African countries which have lower rentals. The same observation is seen in the industrial space on which the yield in Tanzania is lower compared with other countries which charge lower rents. The disparity is even more glaring in the residential space where with the highest rental charges among countries; Tanzania's yield is little compared with the rest of the African countries with lower rental charges. For instance, rental charges in residential properties in other countries are almost half of the rental charge in Tanzania, but they obtain the yield which is almost twice as much as the yield in Tanzania.

Tanzania (especially Dar es Salaam city) has low vacancy rate, for instance, Knight Frank (2011)³⁴³ reveals that, most of the office space completed within the last two years has been occupied and vacancy levels remain very low for both the prime and sub-prime stock. The occupancy rate of prime office buildings in Dar es Salaam ranges from 84% to 100%, with an average of 98.6%.³⁴⁴ In general, Tanzania's real estate market in regards to residential, retail outlets or mixed concept real estate is known for its high demand and lack of supply, because of the missing or limited financing opportunities.³⁴⁵ However, Kusiluka and Lucian (2008)³⁴⁶ provide precautions that, although there is no abrupt change in rent in Dar es Salaam, forecasting models show continuously decreasing rate.

There are a number of developments which are still in the pipeline in Dar es Salaam city. However, even with those developments, it is expected that quality office accommodation will still be in short supply.³⁴⁷ The vast majority of schemes already underway are poorly designed. There is still demand for decent office space. Since the stock of rental properties has continued to increase and vacancy levels have remained low on both residential and commercial uses, it is likely that with the expected commercial developments, occupancy levels will slightly decline and rents per square

³⁴² See Brennan/Burton (2007), p. 66.

³⁴³ See Knight Frank (2011), p. 30.

³⁴⁴ See Goodluck (2012), p. 45-46.

³⁴⁵ See Rothacher (2011), p. 69.

³⁴⁶ See Kusiluka/Lucian (2008), p. 23.

³⁴⁷ See Daily News, 3rd October (2011b).

meter per month will decrease in the near future. The property market especially in Dar es Salaam has witnessed a noticeable change in the shift of tenants and property owners preference. For commercial properties, the shift in preference is seen in the location of properties. Due to congestion in the city centre, among others, a number of owner-occupiers are constructing their properties outside the city. Some reputable firms which used to rent office spaces in the CBD are also relocating to spacious properties away from the CBD. Regarding residential properties, there is a shift from owning or renting low quality properties to modern and high quality properties. The prevailing property market rents in Dar es Salaam Central Business District (CBD) are as shown in Table 14.

Table 14: Dar es Salaam CBD Property Market Rents

Space	Office (m ² /month)	Retail (m ² /month)	Apartment	Industrial (m ² /month)	Parking (per car bay/month)
Rent (US \$)	8-20	7-30	Rent varies*	3-8	30-65
Yield (%)	10-13	12-14	7-12	10-14	NA

Source: Own Illustration.

**Rental charge for modern apartments around the CBD depends on the number of rooms. For instance, rent for a 2-Bedroom apartment is US \$ 1700-2500 per month; for a 3-Bedroom apartment rent is charged US \$ 2000 and above, and for a 4-Bedroom apartment rent is US \$ 3500-4500. However, it should be noted that, 'executive' apartments, most of which are located in prime residential areas (outside the CBD) charge higher rents. Also detached residential properties in prime areas command very high rent. The rate can be more than US \$ 5000 per month.*

NA: Stands for 'Not Available'

Office rents in Dar es Salaam CBD for different grades are provided in Table 15.

Table 15: Dar es Salaam CBD Rents for Office Grade A-D*

Grade A (US \$)	Grade B (US \$)	Grade C (US \$)	Grade D (US \$)
16-20	10-16	7.5-10	5-7.5

Source: Daily News, 24th May (2011i).

** Note:*

Grade A offices: Are top quality and prestigious properties mostly located in the core of CBD. These offices also possess high-quality furnishings and state-of-the-art facilities. Most of these offices are appealing to high-profile companies, international tenants and large enterprises.

Grade B offices: Refer to properties that fall below the Grade A bracket typically in terms of rent, location, facilities and quality. These buildings are maintained and finished to a good standard with adequate facilities. Materials used in the construction or fit-out of the building are functional but are not considered to be the highest quality. Supply is more readily available than the more prestigious properties. These offices are mainly occupied by medium enterprises.

Grade C offices: These offices provide functional space for tenants looking for medium rents. The fit-out is usually of much lower quality than Grade A or B properties. Quality, internal furnishings and decoration are usually not to a high standard.

Grade D offices: These are low standard offices providing functional space mainly for small enterprises. These offices are located not at the very core of CBD. They range from new to old buildings without or with low standard facilities for instance, air-conditioning, parking and other fit-out.

However, despite the positive developments recorded in the wake of economic reforms, Dar es Salaam city still suffers from a congested and somewhat dilapidated CBD. While the CBD still retains the majority of businesses and commerce, the tendency for new development in recent years has been to relocate outside the immediate city centre. There has been an increasing trend of some offices relocating to the periphery of the CBD and others even in the residential neighbourhoods outside the city centre. This is due to traffic congestion in Dar es Salaam city centre. Unless the government improves the state of roads, and/or widens the current road network and implements the project of construction of flyovers in some major roads, this trend is likely to remain the same for some time.

3.6.7.1 Dar es Salaam Architecture

Architecture of Dar es Salaam city can be traced back to the colonial times. Apart from a simple local architecture, some traces of Arabic, German and British architecture can still be found in Dar es Salaam reflecting the colonial history. Arabic architecture was characterized by stone-built houses, mosques and palaces³⁴⁸ and the six-room single-storey residential houses popularly known as *Swahili* houses. It was during the Europeans' rule when big and modern structures like the State House, some government offices, hospitals, schools, churches, embassies and other institutional buildings were constructed. Arabic architecture has largely been replaced by European

³⁴⁸ See Allen (1974), p. 45.

architecture, with buildings constructed using a variety of imported materials and styles.

The built environment of Dar es Salaam city has been evolving since independence. In addition to that, the institutional reforms which have been taking place since the mid 1980s have contributed significantly to the growth of investment in real estate. Demand for commercial space has over the reforms period been steadily increasing and the built environment of Dar es Salaam city has tremendously changed since then. However, the old architecture which used to give the city a unique character has faded away and has been replaced by modern architecture, with a lot of skyscraper development.³⁴⁹ The architecture of the city to a great extent reflects European-originated phenomena.³⁵⁰ The loss of old architecture in many of developing countries has been the concern of many authors. For instance, Hardoy and Satterthwaite (1997)³⁵¹ provide that, international fashions for building design, whether in homes, shopping complexes or office cross international borders is rapidly increasing and can be seen almost as a denial of the culture and history of third world cities.

3.7 Foreign Real Estate Investment Framework in Tanzania

3.7.1 Policies on Foreign Investment

Tanzania has strongly encouraged foreign investment ever since its implementation of economic reforms starting from the mid 1980s. It has formally opened its gates to foreign investors in all sectors including real estate.³⁵² All matters related to investment in general are guided by the Tanzania Investment Act No. 26 of 1997. The Act specifies major policy guidelines which are applied to both foreign and domestic investment. Some of the issues which are stipulated in the Investment Act 1997, include investment guarantee against nationalisation and expropriation, and settlement of disputes using International Centre for Settlement of Investment Disputes (ICSID). Also Tanzania Investment Act No. 26 of 1997 facilitates the establishment of the Tanzania Investment Centre (TIC). TIC was established with the main objectives of promoting, coordinating and facilitating investment process in the country. Although

³⁴⁹ See Brennan/Burton (2007), p. 66; also see Nyerere-Inyangete (2007), p. 10-12.

³⁵⁰ See Lemmens/van Tassel (2005), p. 167.

³⁵¹ See Hardoy/Satterthwaite (1997), p. 270.

³⁵² See Rothenberger (2010), p. 92.

TIC serves both local and domestic investors, it is so useful for foreign investors who are new to the Tanzanian business environment. Among others, TIC assists investors on acquiring land, getting residence permits, matters relating to taxation and on all matters concerning the implementation of investment projects in the country. As a one-stop investment facilitation agency, TIC helps the investors not to go through the normal bureaucratic procedures by providing all necessary services under one roof. Senior officers from the government or its agencies are permanently stationed at TIC to serve investors. These officers offer services in a number of departments including Lands department, Tax department, Immigration department, Labour department, Directorate of Trade and Business Registration and Licensing Agency (BRELA).

As discussed in sub-section 3.8.1, there are a number of benefits and incentives which are enjoyed by qualified investors who register their projects with TIC. Although foreign investors are obliged to apply to the TIC before acquiring real estate, current practice has shown that direct investments via joint venture constellations with local partners are also possible.³⁵³

3.7.2 Land Ownership and Acquisition by Foreigners

Although property ownership in a given country is largely dominated by domestic agents (individuals, or private, or public entities), in recent years the role of international economic agents in ownership of property and supply of space for use has increased.³⁵⁴ In recognising the importance of foreigners (i.e. internationalisation) and enhancing the competitive environment of the real estate sector in Tanzania, the Land Act No. 4 of 1999 also provides a guideline for non-citizens to own land. Non-citizens are allowed by the law to obtain a Right of Occupancy or derivative right only for investment purposes as prescribed under the Tanzania Investment Act No. 26 of 1997. TIC is the sole agency for assisting foreign investors on acquiring land. In regard of land acquisition, TIC has no land bank at present therefore, it cannot guarantee investors on availability of land. In practice, foreign investors acquire land either through TIC or buying directly from private land owners. In most case, the former is done through the engagement of a local real estate firm. Also in some cases, TIC introduces local companies to foreign interested parties and mediates between them.

³⁵³ See Rothenberger (2010), p. 93.

³⁵⁴ See Tiwari/White (2010), p. 17.

Section 20(2) of the Land Act No. 4 of 1999 provides guidelines for land acquisition by foreigners. Land needed by a foreign investor is first allocated to the Tanzania Investment Centre (TIC), which then issue derivative rights to that investor. Foreigners can also own land by means of joint venture arrangement with local investors and/or local companies. Derivative titles give foreigners the right to occupy and use the land but only for investment purposes. The Act also allows foreigners to lease land. Leases are created out of right of occupancy. Derivative titles are granted for periods of 5 to 98 years, whereas the maximum term of any lease must be ten days less than the term of the granted Right of Occupancy. Leases are renewable at the end of each period. Derivative rights and leases granted to foreigners have the same status as the Right of Occupancy held by locals. Foreigners can use derivative titles and leases to secure bank loans.

Section (20)(h) of the Land Act No. 4 of 1999 provides that, application for the Right of Occupancy to the Commissioner for Lands by foreigners has to be accompanied by a Certificate of Approval granted by the TIC under the Tanzania Investment Act and any other documentation which may be prescribed by that Act or any other law.

3.7.3 Taxes on Foreign Real Estate Investments

According to World Economic Forum (2011) ³⁵⁵ regarding taxes in Tanzania, tax rates and tax regulations were regarded as the most problematic factors of doing business in Tanzania. Out of 15 factors, the country is ranked third on tax rates and eighth on tax regulations. Taxes on landed property have already been discussed in previous sections of this work. Provided below is the summary of the main taxes for foreign real estate investors:

- *Land rent*: Is payable on annual basis; the rate depends on location, use, value and size of the property
- *Property tax*: The rate is 15% and 20% of the property value for residential and commercial properties respectively

³⁵⁵ See World Economic Forum (2011), p. 242.

- *Capital gain tax*: This is charged on disposal of real property and/or real estate company shares, the rate is 20% and 30% of the property's net gains for foreign individuals and foreign companies respectively
- *Corporate income tax*: Foreign investors are obliged to pay 30% corporate income tax on taxable income. However, as an investment incentive to foreign investors, TIC grants up to 5 years of corporate income tax holiday
- *Withholding tax*: The rate is 15%, it is charged on after tax profit from rental income, interest and/or dividends
- *VAT on rental income*: The rate is 18%, it is charged on residential and commercial rental income to VAT registered companies or private developers

3.7.4 Land Conflict and Resolution for Foreigners

In the course of protecting foreign real estate developers and investors, the government has put in place sufficient investment security environment. Apart from the legal land dispute settlement machinery and the establishment of the High Court (Land Division) and Commercial Court internally, Tanzania signed agreements with the Overseas Private Investment Corporation (OPIC) in 1996. OPIC is in the form of investment insurance and reinsurance, debt and equity investments and investment guarantees available for investors. Tanzania is also an active member of both the International Center for the Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA). The latter has enabled foreign investors to make use of MIGA guarantees. Any disputes between foreign investors and the government may be settled through the ICSID, MIGA and/or various other international organisations. Disputes may be presented for arbitration under various international agreements such as the Convention on the Settlement of Investment Disputes between states and nationals of other states, or the Paris Convention for the Protection of Industrial Property signed by Tanzania in 1994 among others.³⁵⁶

Despite the existence of an elaborate land court system, not many local people have benefited. High courts in Tanzania are organised in zones, which means that one court normally serves many regions. The Court of Appeal is based solely in Dar es Salaam. Even District Land and Housing Tribunals are not always accessible by poor people for similar reasons. Land conflicts are still widespread in Tanzania. This is due to the fact

³⁵⁶ See UNCTAD/ICC (2005), p. 48; also see Rothenberger (2010), p. 94.

that, most of these courts are overwhelmed with pending cases and complainants have to wait for a long time for their cases to be determined. However, the government has taken a number of steps to improve this situation. This includes the introduction of Strategic Plan for the Implementation of the Land Laws (SPILL) program one of the objectives of which is to strengthen the dispute resolution mechanisms in the country.

3.7.5 Access to Local Development Finance

Among the factors hindering the sustenance of Tanzania's real estate market is the limited access to local finance.³⁵⁷ Generally, Tanzania's financial sector is still at its early stages of development and therefore unable to meet financial needs of the majority. In fact, access to bank financing was rated the first most problematic factor for doing business in Tanzania within a report by World Economic Forum (2011).³⁵⁸

Generally, commercial banks' lending to the real estate sector has been marginal. As seen in Table 10, average lending to the sector from 2007-2010 was only US \$ 82 million. To a great extent, funding to the real estate development in Tanzania remains to be equity. Development in most cases stretches over a number of years with more or less informal means of financing. Mortgage market has just started to show some improvement following the amendment of the Land Act No. 4 of 1999 on issues regarding mortgages. Before the amendment, foreclosure was not allowed, this created difficulties for the financial institutions to recover their money in case of default. However, foreclosure is no longer a problem following the amendment which is incorporated in the Land (Amendment) Act of 2004 and its Regulations which are in place since 2008. This has changed the perceptions of financial institutions on mortgage finance in the country. A number of financial institutions (refer to section 3.6.1.7) have started to issue mortgage loans.

Owing to the infancy of the sector, there is a significant mismatch between deposit and lending, which limit financial institution to issue long term finance such as loan for real estate. This observation also concurs with CAHF (2011)³⁵⁹ which notes that, banks in Tanzania struggle with a lack of long-term financing, and rely heavily on retail deposits

³⁵⁷ See Rothenberg (2010), p. 97.

³⁵⁸ See World Economic Forum (2011), p. 342.

³⁵⁹ See CAHF (2011), p. 101.

to fund mortgages. The narrowness of the lending market has clearly had its negative impact on interest and lending rates.³⁶⁰ Stringent loan conditions and collateral requirements have kept real estate developers (especially small developers) at distance. However, access to local finance does not seem to affect large real estate developers and foreigners. Foreigner's access to local finance is given further treatment in the Chapter 4.

3.8 Investment Promotion and Facilitation Agencies in Tanzania

3.8.1 Tanzania Investment Centre (TIC)

TIC was established by the Tanzania Investment Act No. 26 of 1997. It is the focal point for all investors' inquiries, it screens foreign investments, and facilitates business start-ups. The Centre is the primary agency of government to co-ordinate, encourage, promote and facilitate investment in Tanzania and to advise the government on investment policy related matters. The Centre offers a Certificate of Incentives for foreigners or local investors who satisfy the minimum investment capital requirement of US \$ 300000 or US \$ 100000 respectively.³⁶¹ Depending on the sector in question, amongst others, the Incentive Certificate guarantees:³⁶²

- Protection of investment under the Multilateral Investments Guarantee Agency (MIGA)
- Protection of investment under International Centre for Settlement of Investment Disputes (ICSID)
- Full profits, capital after tax and dividend repatriations by foreign shareholders to home countries
- Fiscal stability for a period of 5 years i.e. protection against adverse changes in taxation legislation
- Import duty and VAT exemption on project/capital goods
- Import Duty Draw Back Scheme (refund of duty charged on imported inputs used for producing goods for export and goods sold to foreign institutions like UN and its agencies operating in Tanzania)

³⁶⁰ See Rothenberg (2010), p. 98.

³⁶¹ See Tanzania Investment Act of 1997, section 2(2a) (2b); TIC (2010); USAID (1999), p. 53; UNCTAD/ICC (2005), p. 49 and p. 54-55; Tanzania Investor's Guide (2011); UNCTAD (2002), p. 31; also see TIC (2008c), p. 35.

³⁶² See Tanzania Investment Act of 1997, section 2 and section (21)-(25); UNCTAD (2002), p. 31, p. 39 and p. 42; PwC (2008), p. 27; also see UNCTAD/ICC (2005), p. 50.

- Protection against nationalisation
- Obtaining credit from domestic sources by foreign investors
- Automatic permission to employ 5 foreign nationals
- Unrestricted right to international arbitration in the case of disputes with the government
- Zero-rated VAT on goods manufactured for export
- Straight-line accelerated depreciation allowance on capital goods

Real estate investors/developers may acquire land directly from the landlords or through the TIC. However, at present the Centre has no land bank (it is worth noting though that, the Centre together with the MoLHSD are currently in the process of consolidating land bank). Just as for many local developers, foreign developers also buy land directly from the land owners, rather than going through TIC. World Bank (2010)³⁶³ notes that, there are difficulties accessing land for investment purposes in Tanzania. TIC has so far registered 4,210 investment projects, 80% of which require access to land parcels with TIC only being able to supply land to one-quarter of those registered. Furthermore, the report provides that, between 2004 and 2007; 440 applications for land allocation were received, but only 13 applicants received their titles, which is evidence that the formal land delivery system in urban areas is not working effectively. Table 16 shows the number of developers who applied for land through TIC. However, there is no data to show how many applicants finally managed to get land.

Table 16: TIC Registered Local and Foreign Real Estate Developers from 1997 to 2010

Year	Total No. of Registered Projects	New Projects	Expansion/Rehabilitation Projects	Local Projects	Foreign Projects	Joint Venture Projects	Total Employment Created	Value of Investment*	
								TZS Million	US \$ Million
2010	92	85	7	43	30	19	5078	1,896,858	1,375.13
2009	81	58	23	47	14	20	3360	922,041	709.59
2008	141	108	33	73	34	34	10214	782,630	662.74
2007	91	81	10	59	14	18	28592	453,979	358.88
2006	114	85	29	62	28	24	5329	1,570,117	1,247.61

³⁶³ See TIC (2010); also see World Bank (2010b), p. 136 as quoted from Muzzini/Lindeboom (2008).

Year	Total No. of Registered Projects	New Projects	Expansion/Rehabilitation Projects	Local Projects	Foreign Projects	Joint Venture Projects	Total Employment Created	Value of Investment*	
								TZS Million	US \$ Million
2005	72	50	22	40	17	15	5608	219,910	195.25
2004	57	40	17	31	8	18	2239	224,228	202.50
2003	48	33	15	24	16	8	2665	58,983	56.31
2002	39	31	8	23	8	8	3207	564,401	590.38
2001	17	13	4	6	5	6	1996	33,450	37.67
2000	23	17	6	11	3	9	1456	53,583	66.95
1999	19	15	4	10	4	5	1208	88,924	119.39
1998	12	11	1	5	4	3	1512	20,285	30.52
1997	11	11	0	3	5	3	684	20,720	33.85

Source: TIC Research and Statistics Department (2011); MFEA (2011), p. 108; MFEA (2010), p. 109.

**For conversion of TZS against US \$ refer to Table 5 of the present work.*

3.8.1.1 Incentives in the Real Estate Sector³⁶⁴

Among others, real estate developers (i.e. local or foreigner) get the following benefits if they register their projects with TIC:

- 100% capital allowance deduction in the years of income
- Zero import duty and deferred VAT on capital/deemed capital goods
- 5% customs duty exemption and deferred VAT on investments in commercial property and commercial real estate development
- A 6% capital deduction is permitted for hotel real estate investments
- Exemption from corporate tax for up to 5 years as well as a number of other income tax benefits
- Interest deduction on capital loans
- Indefinite carrying forward of losses against future profit
- Assistance in processing of business registration, working permits and licenses by various government agencies and in resolving any areas of difference with such agencies
- Assistance with allocation of land and issues of derivative titles under the Land Act 1999
- Straight line depreciation allowance on capital goods
- Repatriation of 100% of the profits and dividends after tax and other obligations

³⁶⁴ This list of incentives to the Real Estate Sector is according to the Interview conducted to the TIC officer (TRA Department), September 2011. Also see Rothenberger (2010), p. 93-94.

- Foreign real estate developers and investors are guaranteed against nationalisation and expropriation

According to TIC, commercial properties are classified among the priority sectors for investment.³⁶⁵ This classification, qualifies property investments for the benefits outlined in the Investment Act. The classification is an acknowledgement of the depressed supply of commercial real properties in Tanzania. There is also an incentive of 5% customs duty and deferred VAT on investments in commercial property and commercial real estate development, exemption from corporate income tax for up to 5 years as well as a number of other income tax benefits. These include allowing interest deduction on capital loans, the removal of the 5-year limit for carrying forward losses and 100% capital allowance deduction in the years of income. In addition to that, 6% capital deduction is permitted for hotel investments.³⁶⁶

Although there is zero import duty and deferred VAT on capital/deemed capital goods, TIC does not exempt the import duty for some building construction materials (i.e. cement and steel) which are available locally. The mentioned building materials which are obtained locally are not tax exempted. This was done deliberately to protect local industries. In order to get tax exemption for the building materials, a stamped Bill of Quantity (BOQ) by a registered quantity surveyor has to be submitted to TIC for verification. There is also no exemption for prefabricated construction materials. The TIC decision of granting incentives is done in line with the existing guidelines. However, sometimes cases are treated individually.

It should be noted that, tax exemptions on construction materials applies to residential and commercial buildings. There is also tax exception which applies to serviced furnished apartments. This category of property use (i.e. either for residential or hotel) gets additional tax exemption on furniture and fittings used in the buildings.

³⁶⁵ The categorisation is according to TIC; also see UNCTAD (2002), p. 30; Mnali (2008), p. 11; PwC (2008), p. 27; and Ngowi (2002), p. 7.

³⁶⁶ See Kiwale (2003), p. 64 as quoted from Rothenberger (2010), p. 94.

3.8.2 Tanzania National Business Council (TNBC)³⁶⁷

Apart from TIC, the government also established another investment support institution known as Tanzania National Business Council (TNBC) in 2001. TNBC was established through a Presidential Circular as an institution providing a forum for public/private sector dialogue with a view to reaching consensus and mutual understanding on strategic issues relating to the efficient management of resources and to improve business environment in the country. TNBC is the highest consultative organ between the private sector and the government in the country. It has 40 members (its membership is 50% public and 50% private) with the President of the United Republic of Tanzania as the Chairman. TNBC vice chairperson is also a chairperson of Tanzania Private Sector Foundation. The Council also aims at encouraging and promoting the formulation of coordinated policies and social and economic matter including considering existing and proposed social and economic legislation and to make recommendations through the Government to Parliament or other appropriate bodies. It also participates in the review process and proposes changes in the policy environment to enhance the attractiveness of Tanzania for both local and foreign direct investment and improve on competitiveness of Tanzania products in the world market.

3.8.3 Business Environment Strengthening for Tanzania (BEST)³⁶⁸

The government of Tanzania with the support of four development partners i.e. the government of Denmark through DANIDA, the government of Sweden through SIDA, the government of Netherlands, and the government of United Kingdom through the DfID, is implementing the Program for Business Environment Strengthening for Tanzania (BEST). BEST was established in 2003 with the following specific objectives:

- (i) To achieve better regulation (this include reducing the burden on businesses by eliminating as many procedural and administrative barriers as possible
- (ii) To enhance change of culture of government (i.e. improved customer service for services provided to the private sector by the public and judicial service)
- (iii) To improve commercial dispute resolution
- (iv) To strengthen the Tanzania Investment Centre (TIC), and

³⁶⁷ See TNBC (2011).

³⁶⁸ See Sitta (2005), p. 13-14; Musiba (2005), p.8; Tax-Bamwenda/Mlingi (2005), p. 19-21.

- (v) To enhance the capacity of private sector to advocate for and demand a better business environment

BEST programme has also facilitated the preparation of the Valuation and Valuers Registration Bill and the Real Estate Agents Bill. The Valuation and Valuers Registration Bill is expected to be tabled before Parliament.³⁶⁹

In addition to TIC, TNBC, and BEST, some of other measures taken by the government to enhance private sector involvement in the economy include; establishment of the Commercial Court of Tanzania in 1999, establishing Lands Division of the High Court dealing with land matters, establishment of the Industrial Court of Tanzania under Permanent Tribunal Act No. 3 of 1990 for handling labour disputes.

3.8.4 Business Registration and Licensing Agency (BRELA)³⁷⁰

Business Registration and Licensing Agency (BRELA) is a government executive agency established under the Government Executive Agencies Act No. 30 of 1997. BRELA was established in 1999 with the aim of regulating and facilitating business operations by administering companies registration, business names registration, trade and service marks registration, granting of patents, and issuing of industrial licenses to both local and foreign clients. To a great extent, the introduction of BRELA has speeded the service delivery process for the investors.

3.8.5 Other Institutions Creating Conducive Investment Environment in Tanzania

The outcome of institutional reforms was also seen in the establishment of capital market institutions. The Capital Markets and Securities Act was enacted in 1994 so as to promote capital markets. The Act led to the establishment of Capital Markets and Securities Authority (CMSA), which is responsible for overseeing the operation of capital markets in the country. CMSA oversaw the establishment of Dar es Salaam Stock Exchange (DSE) in 1996.³⁷¹ Up to April 2012, DSE had seventeen listed

³⁶⁹ See Kusiluka (2012), p. 100.

³⁷⁰ See BRELA website under: <http://www.brela-tz.org/about.php>.

³⁷¹ See Kusiluka (2012), p. 100.

companies with a total market capitalisation of US \$ 7.5 million. The listed companies include banks, industrial companies, and service companies. However, the real property sector has not significantly capitalised on these capital markets institutions, in terms of using them to raise capital through IPOs and bond issues. Currently, there are no public real property companies in Tanzania nor are there any open-ended or close-ended property funds. A plan by the Unit Trust of Tanzania (UTT) to establish a public Real Estate Investment Trust (REIT) is still on-going.

Enactment of the Public Corporations Act No. 2 of 1992; the Act liberalised investment policies for parastatal organisations, broadened the investment spectrum for both small and institutional investors. Pension funds and other institutional investors who formerly used to invest largely in government securities are now able to venture into many other investment media.³⁷² Enactment of the Banking and Financial Institutions Act in 1991 was a positive move towards the banking sector in Tanzania. Following the enactment of the Act, the sector has witnessed major changes in the financial and banking sector including the entry of private banks into the market.³⁷³ Following the enactment of the Act, a number of banking institutions and banking activities has increased significantly. For instance by April 2012, there were 29 commercial banks, 7 regional unit banks, 5 financial institutions, 2 regional unit banks and about 180 registered Bureau de Change in mainland Tanzania.³⁷⁴ There are also a number of micro-credit institutions which mainly serve people with limited access to large commercial banks.

The reforms which aimed at improving private investment environment and attracting foreign investors, also resulted into enactment and amendment of many pieces of legislation. Some of the legislations and agreement which create conducive investment environment include: the Business Licensing Act, No. 25 of 1972 (Cap 208), Companies Act No. 12 of 2002, Patent Act, 1987, Trade and Services Marks Act, 1987, Public Corporations Act, 1992, Financial Laws (Miscellaneous Amendments) Act No. 27 of 1997, Capital Markets and Securities Act No. 5 of 1994, Foreign Exchange Act No. 1 of 1992, Banking and Financial Institutions Act, 2006, Bank of Tanzania Act, 2006, Income Tax Act No. 11 of 2004, Value Added Tax Act No. 24 of 1997,

³⁷² See Mpogole (2006), p. 162.

³⁷³ See Wangwe/Lwakatare (2004), p. 2; also see Kusiuka (2012), p. 101.

³⁷⁴ See BoT website under: <http://www.bot-tz.org/BankingSupervision/BankingSupervision.asp>.

Immigration Act No. 7 of 1995. Tanzania has also signed a number of international agreements which guarantee protection of investment and dispute settlement for foreign investors. These include double taxation agreements, bilateral investment treaties, and settlement of commercial disputes agreements.³⁷⁵ For legislations relating to real estate activities refer to sub-section 3.3.1 of this work.

3.9 Tanzanian Real estate Development with Reference to Poorvu's Model³⁷⁶

3.9.1 Property

The literature shows different perceptions on the property and the environment within which development takes place. For instance, Poorvu and Cruikshank (1999)³⁷⁷ note that, property sits within markets that are mostly local and fragmented, and are subject to more or less intensive controls in the larger context of a litigious society. Wilkinson and Reed (2008)³⁷⁸ opine that, property development is complex, often taking place over a considerable time-frame and operates under constant public attention.³⁷⁹ Property development (which can be for owner occupation, letting or sale) is a process which involves a number of activities in the course of realising the end product. These include site selection and evaluation, land acquisition, legal investigation, EIA, design, building permits and other approvals, financing, and construction. All of the mentioned activities attract a considerable attention and interest in different ways.

According to the Land Act No. 4 of 1999, all land in Tanzania belongs to the public and is acquired for use through a certificate of Right of Occupancy granted by the government, derivative rights granted by TIC and sub leases created out of the Rights of Occupancy. Customary land ownership is governed by the Village Land Act No. 5 of 1999. Under this Act, land is acquired through Deemed Right of Occupancy. Certificates of Right of Occupancy are granted for periods of up to 99 years and can be made in shorter terms of 33 and 66 years. TIC derivative rights for foreigners have the same status as the Right of Occupancy. Lease and sub-leases have a maximum term of ten days less than the term of the granted Right of Occupancy. It is clear that,

³⁷⁵ See TIC website under: <http://www.tic.co.tz/>.

³⁷⁶ The discussion here is mostly done with reference to Poorvu's Model on the criteria for successfully winning real estate game. More discussion is further provided in Chapter Five.

³⁷⁷ See Poorvu/Cruikshank (1999), p. 3.

³⁷⁸ See Wilkinson/Reed (2008), p. 2-3.

³⁷⁹ See Wilkinson/Reed (2008), p. 2-3.

property is affected by the rest of the variables in the diamond (i.e. players, capital market and external environment) in Tanzania. Prosperity in real estate development industry depends on a number of issues including availability of land bank, secure and serviced land, availability of infrastructure, absence of bureaucratic procedures and corruption, effectiveness of institutional and legal framework, and effective conflict resolution mechanisms. To a great extent, there is no mechanism to ensure sustainable land resources allocation and utilisation in the country. Although there is abundant undeveloped land, one cannot get land without going through some bureaucratic procedures.

Except for the two institutional developers (i.e. NHC and TBA), there is no conducive environment for private real estate development companies to carry out mass development. The existing challenges in the land and real estate sector affect the competitiveness of the sector and its growth to a large extent. As noted by Tiwari and White (2010)³⁸⁰, although property markets are largely local in nature, there is pressure for local practices to respond to the needs of international economic forces. The view by Tiwari and White (2010) is relevant for Tanzania. In order to enhance land and real estate sector competitiveness, deliberate efforts need to be taken to address the sector's weaknesses.

Regarding the type of real property development, Poorvu and Cruikshank (1999)³⁸¹ insist that, property developers and other players need to figure out which property type they work with and stick to most effectively or, they have to venture out into new property type after undertaking good market and feasibility study. Looking at the existing property development practices in Tanzania, it seems that there is no balance on the type of property development for different uses. Although this study has not gone into details to determine real estate demand for different property types, there are a number of indicators to suggest for instance, the existence of high demand for properties for middle-class residential use. However, many private developers concentrate more on building commercial properties, and executive residential houses focusing on expatriates or high-class users.

³⁸⁰ See Tiwari/White (2010), p. 12.

³⁸¹ See Poorvu/Cruikshank (1999), p. 253.

3.9.2 Capital Market

Poorvu and Cruikshank (1999)³⁸² also note that, although capital markets operate independent of the property world, they affect what is built and how it is priced. Furthermore, stock prices and real estate prices are often related; as both are greatly influenced by the level of interest rates. When the demand for stocks is high, price-earnings multiples will rise, which should also lower the expected returns for real estate and simultaneously raise prices for real estate as an investment option. The real estate environment market described by Poorvu and Cruikshank (1999) is different from the Tanzanian market. The authors were referring to the well developed economies in which the capital markets are effective and are an unavoidable backdrop to the real estate business. In Tanzania, there is weak connection between the stock market and real estate. Dar es Salaam Stock Exchange (DSE) is a medium for a number of companies in the country to raise funds through trading in shares, but there is no real estate company which has taken advantage of DSE.

The total assets of the banking sector for the year ended 2010/2011, was TZS 13,635.1 billion.³⁸³ For the last four years i.e. 2007-2010, the lending to the real estate sector has been minimal (refer to Table 10). The mismatch in the nature of lending and deposit is one of the major challenges for financial institutions not to lend to the real estate sector. Banks in Tanzania struggle with a lack of long-term financing, and rely heavily on retail deposits to fund mortgages.³⁸⁴ CAHF (2011) provides further that, even the three banks active in the mortgage market i.e. CBA, Azania Bank and Stanbic Bank, together, have a combined mortgage portfolio of only about TZS 100 billion.

The financial landscape in Tanzania comprises banks, pension funds, insurance companies, and other financial intermediaries.³⁸⁵ BoT (2010d) provides further that, the sector is dominated by banking institutions which account for about 75% of the total assets of the financial system, followed by pension funds whose assets account for about 21% and the insurance sector with 2% of the total assets, while the remaining financial intermediaries hold about 2%. For instance, pension funds and insurance companies hold between 30% and 20% of the total amount of outstanding government

³⁸² See Poorvu/Cruikshank (1999), p. 5.

³⁸³ See BoT (2011b), p. 53.

³⁸⁴ See CAHF (2011), p. 101.

³⁸⁵ See BoT (2010d), p. 15.

debt securities. In addition to that, pension funds deposits in the top ten banks in Tanzania represented about 10% percent of total private sector deposits in the banking system as at the end of June 2010.³⁸⁶ Pension funds in Tanzania have been actively investing in different financial instruments such as corporate bonds, treasury bonds, treasury bills, government stocks, listed shares, institutional and companies loans and in fixed deposits.

The inactiveness of the capital markets is one of the reasons for the absence of public real property companies, open-ended, or close-ended property funds in the country. Prior to the establishment of CMSA and DSE, Tanzania did not have clearly defined financial markets, other than the market of government bonds and treasury bills which were primarily issued to one state owned insurance company (i.e. NIC), two pension funds (i.e. NPF and PPF) and savings banks.³⁸⁷ A number of companies have already benefited from these capital markets reforms by either going public or getting listed at DSE. All reputable companies have enjoyed oversubscription in their Initial Public Offerings (IPOs). Similarly, all of the DSE-listed corporate bonds have enjoyed oversubscription at the time of their listing.³⁸⁸ Through these capital market institutions, the government has also been able to transfer ownership of some key state-owned enterprises to the general members of the public.³⁸⁹

In trying to show the importance of financial markets in the land sector, World Bank (2003)³⁹⁰ notes that, imperfections in financial and other markets may imply that land sales markets will, in cases where credit market imperfections are severe or a select subset of producers benefits from distortions in other markets, not necessarily transfer land to the most productive producers. Absence of effective capital markets could as well be a reason which prevents real estate sector from contributing substantially to the economy.

A number of other studies acknowledge that, capital markets greatly influence the real estate industry. For instance Dipasquale and Wheaton (1996)³⁹¹ show that there is a

³⁸⁶ See BoT (2010d), p. 17.

³⁸⁷ See Kusiluka (2012), p. 101.

³⁸⁸ See Kusiluka (2012), p. 101; Fumbuka (2008), p. 40 et seqq.

³⁸⁹ See Kusiluka (2012), p. 101.

³⁹⁰ See World Bank (2003), p. 93-94.

³⁹¹ See Dipasquale/Wheaton (1996), p. 7 and p. 21.

link between the asset market and property market in developed countries. The link occurs at two junctions: first, rents determined in the property market are translated into asset prices in the asset market. Second, asset prices determine the level of new construction, which determines the amount of stock available in the property market. The authors further observe that, an increase in demand for space in the property market tends to shift the demand curve which tends to have an impact on increasing rents, asset prices, construction, and the stock of space. Also, a decrease in the capitalisation rate in the asset market tends to increase the demand for real estate assets as well as the asset prices. Increased asset prices in turn bring forth more construction, increasing the stock of space and decreasing rents. In addition to that, an increase in construction costs tends to decrease construction levels, which in turn decreases the stock of space; driving up both rents and asset prices. PREA (2010)³⁹² also notes that, the capital markets play important roles as drivers of both pricing and the supply pipeline of new buildings.

Unlike the relationship which exists between the property and capital markets in developed countries, that link is very weak in Tanzania. The property market is operating in isolation of capital market, causing other forces to shape the real estate industry; which in turn cause rents, land and property prices to be inflated. In addition to that, there is no mechanism to determine rents, property and land prices in the country.

3.9.3 Players

Players are the change agents either directly or indirectly.³⁹³ These are the people who connect the properties with the capital markets, and are the ones who are exposed to the challenges brought by the external environment. Among the players in the real estate development include developers (private, institutional, or development companies), service providers, lenders, owners, tenants, regulators, intermediaries, government agencies, specialised professionals (i.e. architects, engineers, planners, quantity surveyors, land economists, land surveyors, environmentalists, estate agents, contractors, subcontractors, lawyers etc.), politicians, activists etc. Each of these players play the role which affects the operations of the real estate industry either

³⁹² See PREA (2010), p. 41.

³⁹³ See Poorvu/Cruikshank (1999), p. 5.

directly or indirectly. Regarding the role of different players in the development team, D'Arcy and Keogh (2002)³⁹⁴ note for instance that, the developer, as a leading economic actor in the development market, takes on the important economic function of resource allocation, to create new space and investment in property. Developers are at the nexus of the occupier, investment and development sectors of the property market; they play a crucial role in interpreting the requirements of the former sectors and translating them into built form.³⁹⁵ In addition to that, to be in a position to exploit opportunities for profit, developers must continually monitor property market trends and consider their implications for development profitability.³⁹⁶

Successful implementation of the development projects depends on the effectiveness of each player in executing his/her job. For instance, Poorvu and Cruikshank (1999)³⁹⁷ are concerned that, sometimes ineffectiveness or lack of support by players for a new property development may render an intended project unsuccessful. In Tanzania, there is no strong linkage between different players; the situation is much worse when it comes to the residential property development segment where the roles of the different players are not actively exercised. However, even for big projects and commercial development one may find that players interfere with the property development projects processes. For instance, a developer may start the project development, only to find out later that he/she is stopped to continue by another authority, not the local authorities that issued building permit and all necessary approvals. A good example is for joint developers (Palm Residence Limited and TBA) who constructed 19-storey residential apartment block on Plot No. 45 and 46 Chimara Road, Dar es Salaam city. TBA is a government agency which actually issued the building permit to the Palm Residence. The developers were told to stop construction because that development endangers the security of the State House which is close to the said property. The State House insists that, the approval for such development is in breach of urban planning and security regulations, which set a height zone limit of six storeys in that area.³⁹⁸ The question remains to be who sanctioned the project in that area and whether the structure was erected without the knowledge of the relevant local

³⁹⁴ See D'Arcy/Keogh (2002), p. 19.

³⁹⁵ See Antwi/Henneberry (1995), p. 221.

³⁹⁶ See Henneberry (1999), p. 1446.

³⁹⁷ See Poorvu/Cruikshank (1999), p. 155.

³⁹⁸ See Daily News, 7th August (2011c).

authorities. The sanctioning of the project is a good example of how urban planning laws are routinely violated even by government agencies.

3.9.4 External Environment

External environment includes all outside world influences that have impact on the property industry. The external environment is not within the control of the property industry itself. External environment takes different forms which impact property industry in various ways. These forms are such as change in government policies, tax policy, regulations, demographic trends, new technologies, unexpected consumer tastes and environmental trends.³⁹⁹ The external environment, including global competition, is the source of major threats facing today's business organisations. It should also be noted that, external environment is the one which resulted in a further push for environmentally friendly and low-impact building materials (i.e. sustainable construction/green building).

Although competition may pose threat to the real estate industry; some studies find out that competition encourages development of new ways to understand the world, methods and techniques within which to explore it at the nexus of the occupier, investment and development sectors of the property market.⁴⁰⁰ The external environment within which real estate operates often imposes major constraints on the choices property developers make. The importance of the external environment on the real estate industry as emphasised by Poorvu and Cruikshank (1999) is highly relevant to Tanzania. This is due to the fact that, some of the factors (for instance, high building construction costs, advanced construction technologies, lack of development finance, high interest rates, poor state of the country's infrastructure, shortage of power, poor implementation of land laws and policy, tax policy, and bureaucracy) which prevent the growth of the real estate sector are outside the control of the real estate industry. The external environments not only have tremendous impact on the growth of the sector, but they also undermine the competitiveness of the sector.

³⁹⁹ See Poorvu/Cruikshank (1999), p. 6 and p. 255.

⁴⁰⁰ See Guy/Henneberry (2002a), p. 7.

4 Competitiveness of the Real Estate Sector

4.1 Introduction

This chapter presents the analysis of interviewees on the aspects of real estate development and investment competitiveness. The chapter addresses three research objectives. Firstly it explores the key existing and potential driving forces which could stimulate real estate development in Tanzania and which property developers should be conscious of when making property development and investment decisions. Secondly, it describes the strategies of attracting local and foreign property developers in the Tanzanian property market. Thirdly, it assesses the real estate sector in the context of Porter's competitiveness model and their relevance to Tanzania real estate industry. Accordingly, the chapter presents the Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis for the real estate development market in the country.

The data analysed in this chapter was collected using interviews. Interviews were conducted to 47 respondents, grouped into eight categories namely, local real estate developers, foreign real estate developers, real estate professionals, officials from banks, an official from TMRC, an official from TIC, land officers from the MoLHHSD and Dar es Salaam Authorities and one official from Tanzania Bureau of Standards (TBS) as summarised in Table 17. Typically, each interview lasted from one to one and a half hours.

Table 17: List of Interviewees

S/No.	Category	No. of Interviewees
1.	Local Real Estate Developers	15
2.	Foreign Real Estate Developers	6
3.	Real Estate Professionals	10
4.	Officials from Banks	9
5.	Official from TMRC	1
6.	Official from TIC	1
7.	Land Officer from MoLHHSD	1
8.	Land Officers from Local Authorities	3
9.	Official from TBS	1
	TOTAL	47

4.2 Competitiveness of Tanzania Internationally

Tanzania has put in place a number of strategies to attract foreign investment including investment in real estate. For instance, there are no major restrictions on foreign

investors in Tanzania. After having obtained a business license through the BRELA, foreign real estate investors may freely establish private entities and acquire both movable and immovable property.⁴⁰¹ In order to provide sufficient investment security, section 22 of the Tanzania Investment Act No. 26 of 1997 guarantees investments against nationalisation and expropriation. Section 21 of the same Act also permits transfer of net profits, remit proceeds and reimburse foreign loans, royalties, fees and charges unconditionally. In addition to that, as yet, there are no equity requirements for foreign investors and consequently no limitations on the amount of foreign share in Tanzanian companies.⁴⁰²

Apart from investments guarantee against nationalisation and expropriation, Tanzania has also signed agreements with U.S. Government's Overseas Private Investment Corporation (OPIC) in 1996 so as to strengthen investment guarantee for foreigners. As seen earlier, Tanzania is a member of Multilateral Investment Guarantee Agency (MIGA) which allows foreign investors to use MIGA guarantee, and International Center for the Settlement of Investment Disputes (ICSID) which allows foreign investors to seek disputes resolution arising between investors and the government. Disputes can also be settled through MIGA and/or other cross-border agreements under organisations such as the Convention on the Settlement of Investment Disputes between States and Nationals of other States (Washington Convention) and the Paris Convention for the Protection of Industrial Property.

Internally, litigation of land disputes is undertaken in different levels starting from the village level to the court of appeal of Tanzania (i.e. Village Council-Ward Tribunal-District Land and Housing Tribunal-High Court (Land Division)-the Court of Appeal of Tanzania). The High Court (Land Division) deals with all matters over which lower courts have no jurisdiction. The Court of Appeal deals with appeals from the High Court. Decisions of the lower courts may be appealed against to the higher courts. Commercial dispute are settled by the High Court (Commercial Division). Apart from formal courts for commercial dispute resolution system, complaints and dispute resolution system also consists of quasi-judicial bodies such as the Tax Revenue Appeals Tribunal (TRAT) which is established under the Tax Revenue Appeals Act of

⁴⁰¹ See Rothenberger (2010), p. 94.

⁴⁰² See Rothenberger (2010), p. 94.

2002, and the Fair Competition Tribunal (FCT) which is established under the Fair Competition Act of 2002.⁴⁰³ In addition to the court and quasi-judicial bodies, alternate dispute resolution procedures in the form of arbitration proceedings and court-annexed mediation are also a common feature of the commercial dispute resolution system in Tanzania. Mediation also forms a common element in other laws such as under the Village Land Act No. 5 of 1999 and under the Employment and Labour Relations Act of 2004.⁴⁰⁴ Litigation of labour disputes is done under the High Court (Labour Division).

4.3 Competitive Position of Real Estate Sector⁴⁰⁵

4.3.1 Laws Relating to Real Estate Development and Investment

Land is amongst the economic sectors with a number of related policies and legislation which are in place along with institutional frameworks for their implementation. Amongst others, it was interesting to establish how supportive or discouraging were Tanzania land laws and other legislation relating to real estate activities to the developers and investors. Except for two foreign real estate developers (33%) and one local real estate developer (7%), the rest 67% (foreign developers) and 93% (local developers) considered land and other laws to be supportive. These real estate developers were in addition asked to describe positive and negative aspects of the land and other laws relating to real estate. The respondents' response is as presented in Figure 20.

4.3.1.1 Positive and Negative Aspects of Land Laws and other Laws Relating to Real Estate

Although mentioned earlier that land laws and other legislation relating to real estate seemed to be supportive to the real estate developers, Figure 20 shows that about 70% of respondents were of the opinion that enforcement of the said laws is the most complained about that aspect. From the findings, it is generally seen that, laws provided support to the real estate activities, but the problem was on their implementation and on the bureaucratic procedures. This concurs with Nikolaos et al. (2011)⁴⁰⁶ who observe that, the institutional laws are sufficient despite the fact that

⁴⁰³ See Makaramba (2009), p. 6.

⁴⁰⁴ See Makaramba (2009), p. 7.

⁴⁰⁵ Analysis of interviews on the Tanzania real estate competitiveness is also provided in Figure 21.

⁴⁰⁶ See Nikolaos et al. (2011), p. 866.

extreme variations of market practices prevail as if no legislative framework exists. Deininger et al. (2012)⁴⁰⁷ also note that, although Tanzania's land policy has been developed in a participatory process, progress with implementation has been minimal. In addition to that, a report by Urban Institute (2007)⁴⁰⁸ notes that, there is significant evidence that many of the problems with land system in Tanzania relate to institutional shortcomings, and not to the law itself. The report mentions lack of human resources, lack of modern management systems and equipments, poor data archival facilities, inadequate orientation toward customer service, and excessive centralisation of facilities and functions as some of the shortcomings.

Enactment of Unit Titles Act and Mortgage Finance (special provision) Act of 2008 was considered the most positive aspect of the laws. Contrary to its predecessor legislation (i.e. Land Ordinance of 1923, No. 3, Cap. 113), the Land Act No. 4 of 1999 recognises land to have value; this was regarded as a positive move. In addition to that, the enactment of the Investment Act of 1997 which amongst others grants incentives to the developers and investors who register their projects with TIC, was regarded by respondents a positive aspect.

Institutional developers were required by law to apply for a government guarantee when applying for loans. This was regarded as a negative aspect of the laws and the respondent maintained that, the requirement discouraged property development to some extent. One respondent⁴⁰⁹ amongst the institutional developers cited the Government Loans, Guarantees and Grant Act of 1974 as amended by Government Loans, Guarantees and Grant (Amendment) Act 2003 as one of the laws which discourage the investment and development activities. Section 13 of the Act provides that:

.....any loan raised either within or outside Tanzania by a local government authority or parastatal body requires a government guarantee.....

According to the respondent, there was a requirement of government guarantee when borrowing, which is not a straight forward task. There are a lot of bureaucratic procedures and its implementation is generally difficult. However, it was later (July

⁴⁰⁷ See Deininger et al. (2012), p. 84.

⁴⁰⁸ See The Urban Institute (2007), p. 9.

⁴⁰⁹ See Local Real Estate Developer 2 (16.08.2011), Interview.

2012) learned that, the requirement had been removed; institutional developers can now borrow funds from local and foreign institutions without necessarily seeking government approval.⁴¹⁰

As presented in sub-section 5.5.11, VAT which was recently introduced on sale and lease of residential properties was considered as a negative aspect about the laws. Regarding land ownership by foreigners, one respondent⁴¹¹ was of the opinion that, the provision of the Land Act No. 4 of 1999 section 20(1) of not allowing foreigners to own land in the country has negative impact on real estate sector's growth. The respondent maintained that, instead of being granted derivative rights and leases, foreigners could also as well be allowed to own land as it is for Tanzania citizens.

Another respondent⁴¹² had a complaint that some sections of land laws are discouraging. The respondent was referring to Section 5 of the Mortgage Finance (Special Provision) Act 2008 which repeals Section 27 and 28 of the Land Act No. 4 of 1999. The respondent also cited Section 6 of the Mortgage Finance (Special Provision) Act 2008 which amends Section 29(a) of the Land Act No. 4 of 1999, and Section 7 of the Mortgage Finance (Special Provision) Act 2008 which repeals Section 30 of the Land Act No. 4 of 1999. Following repeal and amendment of the said sections, mortgages could no longer be created over *Letters of Offers*, the borrowers are supposed to present Certificates of Right of Occupancy when applying for mortgages. According to the respondent, those provisions discourage property development since getting the certificates of Right of Occupancy in most cases takes long time.

Another respondent⁴¹³ was of the concern that, the current laws are not sufficient in addressing investment in REITs in the country. The respondent argued further that, although the process of establishing REITs was on-going, there is lack of expertise and the laws are not sufficient at present. However, it should be noted that, plans to establish REITs are currently on papers, there is no specific law catering for REITs in Tanzania so far.

⁴¹⁰ See Daily News, 3rd July (2012c).

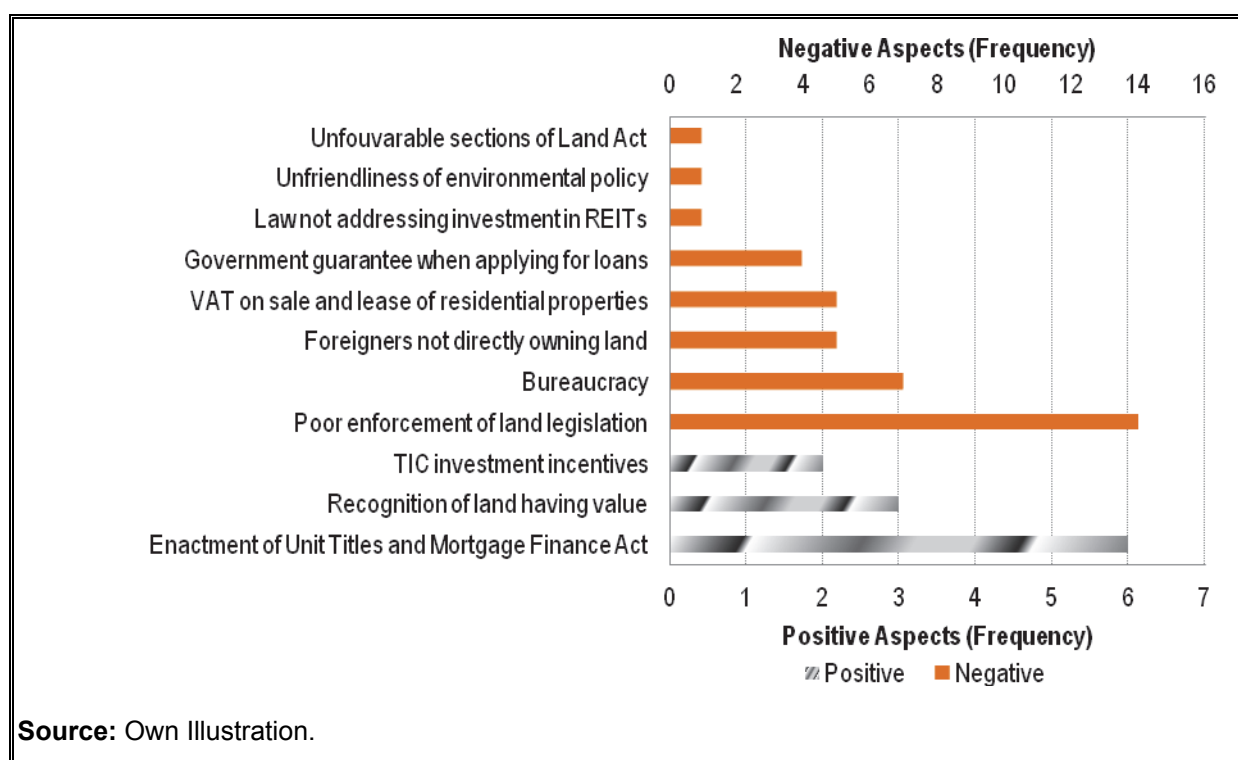
⁴¹¹ See Real Estate Professional 6 (23.02.2012), Interview.

⁴¹² See Official from Bank G (03.10.2011), Interview.

⁴¹³ See Local Real Estate Developer 14 (10.10.2011), Interview.

One respondent⁴¹⁴ complained about weak Environmental Policy enforcement. The respondent was referring to the National Environmental Management Council (NEMC) policy which requires EIA to be undertaken before any project development. This is done in order to assess the potential negative environmental and social impacts for the proposed projects. Approval for carrying out the intended project development has to be issued with EIA certificate from NEMC. The developer is then required to submit EIA certificate to the local authorities when applying for a building permit. It should however be noted that, the requirement for EIA is applicable for large projects only. The respondent argued further that, the process of carrying out EIA and acquiring the certificate takes long (i.e. due to bureaucracy) and the costs are unjustifiably high. The respondent mentioned that, for commercial development project, the fee could be between TZS 10-20 million.

Figure 20: Positive and Negative Aspects of Land Laws and other Laws Relating to Real Estate



4.3.1.2 Land Acquisition Process

Respondents were also asked to describe how they got land for their development projects. A number of respondents seemed to have used different ways of acquiring

⁴¹⁴ See Local Real Estate Developer 15 (07.10.2011), Interview.

land ranging from buying from private land owners, buying government plots, buying plots on tender from institutions, and to taking advantage of joint venture with those who already have land. Amongst the various ways of acquiring land, buying from private land owners seemed to be the most widely used approach. 43% of real estate developers who were interviewed showed that they acquired plots from private land owners. This includes all foreign developers who took part in this study. Only 28% of local real estate developers mentioned to have bought government plots (most of them were institutional developers and pension funds). 10% acquired land both from private land owners and government plots; 5% bought land through tender, and another 14% had enjoyed advantages of being in joint venture arrangements. Regarding the cost of acquisition, they mentioned acquisition costs (which depend on size and is negotiable), costs of transfer (i.e. stamp duty), and compensation costs (this is when a developer identified land for which relocation of existing land owners is necessary). Due to that, the exact figure for the total acquisition costs could hardly be obtained.

When asked whether there are any problems in acquiring land, 57% of respondents maintained that there was no problem in acquiring land from private land owners, while 43% seemed to have encountered problems in land acquisition. The problems included:

- In most cases the acquisition involved unsurveyed land which resulted into extra costs of surveying, and costs of service and basic infrastructure provision
- When acquired land from private land owners, developers had to go through bureaucratic procedures in transfer of ownership
- In some cases it was difficult to get best location for commercial project development
- Sometimes developers bought plots which had double allocation problems
- Some developers bought land which resulted into dispute; this was experienced by developers who acquired village/farm land. Practically, disputes take long to resolve

None of the developers interviewed (especially foreign developers) had acquired land through TIC. This is due to the fact that, TIC does not have a land bank, therefore getting land through the Centre was not guaranteed. It was also established that,

generally there is no special treatment which is given to foreign real estate developer over and above local real estate developers. They both received same advantages of getting exemptions and incentives when registering their projects with TIC. However, one local developer⁴¹⁵ (i.e. government institution) revealed that, its institution got priority especially when bidding for government or institutional land and it had the advantage of mobilising funds from the public.

Generally, it was not possible to get costs of land due to two main reasons. First, majority of developers acquired land from individual land owners. Second, a number of developers both local and foreigner did not want to disclose the information. However, discussion with one foreign real estate developer⁴¹⁶ helped to shed light on land acquisition costs in Dar es Salaam. That developer acquired a number of beach plots making a total of about 170 acres. The developer spent approximately US \$ 2.2 million for plot purchase, site clearance, registration and initial construction work.

4.3.1.3 Property Sale

As for data on land acquisition, information on properties price could not be obtained. However, during the time of this study, one large commercial development (i.e. Mlimani City) was in the final process of being sold to another investor.⁴¹⁷ Mlimani City represents Tanzania's first large purpose-built shopping mall. This project was owned under Public Private Partnership (PPP) between the University of Dar es Salaam and foreign investors (Island View (Pty) Limited of GH Group Limited and the Associated Investment and Development Corporation Limited (AIDC)) from Botswana. The project was expected to cost US \$ 80 million on its completion. On 27th June 2011, Turnstar Holdings Limited (also a foreign investor from Botswana) signed an agreement to acquire the Mlimani City Property Development for US \$ 77 million effective from 1st August 2011. At the time of sale agreement, Mlimani City project comprised the following development details:

- A retail shopping centre with lettable space of about 18,794 square metres
- A conference facility that hosts up to 1,000 participants at once

⁴¹⁵ See Local Real Estate Developer 14 (10.10.2011), Interview.

⁴¹⁶ See Foreign Real Estate Developer 4 (24.03.2012), Interview.

⁴¹⁷ See <http://www.turnstar.co.bw/reports/MlimaniAcquisitionUpdateOct2011.pdf>; see <http://in2eastfrica.net/botswana-firm-to-acquire-mlimani-city-properties/>; see Botswana International Financial Services Centre (2005), p. 1 and p. 3; also see The Citizen, 08th September (2011c).

- A fully let office park consisting four double-storeys buildings
- Grade 'A' buildings with a let space of about 11,308 square metres
- 50 units residential housing estate
- About 75,000 square metres of undeveloped land for future use

4.3.2 Institutional Reforms

Tanzania had been carrying out economic and structural reforms, which have improved economic performance and sustained growth. Tanzania is currently seen as one of the successful reforming Sub-Saharan African economies.⁴¹⁸ Tanzania's economy in total has continuously grown at average yearly GDP growth rates above 6% since 2000. The country's average inflation rate has almost been a single digit from 2000 to 2007⁴¹⁹ and 2010. The successes of the ongoing reforms in the country are reflected not only in the strong macroeconomic indicators but also the increasing inflow of FDI. A number of institutions and forums which are in place encourage private sector development and a broader participation of different stakeholders. Institutions such as TNBC, BEST, BRELA, and other government agencies have stimulated the investment environment in the country by allowing investors roundtables, forum discussions, investment seminars and meetings. These achievements are also based on solid foundations of political reforms. Reforms in the land laws also give Tanzania a competitive advantage of attracting more foreign investors. For instance, Baum (2008)⁴²⁰ notes that, despite its small GDP per capita, which was estimated at US \$ 358, Tanzania is said to be attracting more foreign investors than actually expected. Since the reforms period, a number of real estate development companies have come into being.

A study by Rothenberger (2010)⁴²¹ using Tanzanian real estate market to investigate the foreign real estate investment (FREI) stigma against SSA, reveals that, although real estate related return, particular in SSA have risen to higher levels than in most other developing countries, the region has been avoided by both real estate research and foreign real estate activity. Africa has evidently been viewed as the *forgotten continent* despite a consequence of the prolonged economic growth during the reform

⁴¹⁸ See Arkadie/Dinh (2004), p. 4.

⁴¹⁹ See Figure 16 under sub-section 3.2.3.1 of this work.

⁴²⁰ See Baum (2008), p. 19; Kusiluka (2012), p. 9.

⁴²¹ See Rothenberger (2010), p. iii and p. 13. Also see Beckett/Sudarkasa (2000), p. 5.

period in which the demand for real estate, most notably the demand for office space, in African urban centres could no longer be met.⁴²² The author calls for the most effective way for countervailing this investment stigma and creating a more positive investor sentiment which would be the intensification of relations and dialog between foreign and Sub-Saharan African real estate professionals from both academia and practice; this could evoke positive dynamics in adjusting the perceived adverse impression of SSA as a potential destination for FREI to a more realistic image.

Over the reform period, the country's real estate market has seen an increasing number of foreign investors. Apart from real estate investors from Africa, there is an increasing number of investors from the UK, USA and China. Table 18 shows foreign investors' development projects which were registered with TIC in 2010.

Table 18: TIC Registered Foreign Real Estate Investment Projects in 2010

S/No.	Type of Development	City/Region	Country of Origin	Value of Project (US \$ million)
1.	Commercial building	Dar es Salaam	USA	1.324
2.	Housing estate & commercial building	Dar es Salaam	USA	2.693
3.	Commercial & residential apartments	Dar es Salaam	USA	61.815
4.	Residential apartments	Dodoma	USA	1.5
5.	Residential apartments	Dar es Salaam	UK	4.47
6.	Commercial warehouse	Dar es Salaam	UK	3.95
7.	Residential apartments	Dar es Salaam	UK	18.88
8.	Residential houses	Dar es Salaam	Burundi	1.19
9.	Parking lots	Dodoma	Burundi	1.2
10.	Residential apartments	Arusha	China	3.06
11.	Residential furnished apartments	Dar es Salaam	China	5.603
12.	Residential apartments	Arusha	China	1.5
13.	Residential villas	Dar es Salaam	China	11.6
14.	Oil & gas storage facilities	Dar es Salaam	India	11.42
15.	Residential apartments	Dar es Salaam	India	3.8
16.	Storage facilities	Dar es Salaam	India	8.274
17.	Residential apartments	Arusha	Kenya	0.5
18.	Residential furnished apartments	Dar es Salaam	Kenya	2.5
19.	Commercial & residential apartments	Dar es Salaam	Kenya	4.1
20.	Chain of supermarkets	Dar es Salaam	Kenya	9.5
21.	Commercial building	Dar es Salaam	Kenya	1.5
22.	Commercial & residential buildings	Tanga	Kenya	2.35
23.	Low cost houses	Dar es Salaam	Korea	6.0
24.	Warehouse	Coast region	Lebanon	1.712
25.	Commercial & residential buildings	Dar es Salaam	Sudan	3.288
26.	Warehouse	Dar es Salaam	Switzerland	2.61
27.	Commercial building	Dar es Salaam	UK	8.537
28.	Warehouse	Dar es Salaam	China	1.23
29.	Storage facilities	Dar es Salaam	UK	8.0

⁴²² See Rothenberger (2010), p. 14 and p. 196.

S/No.	Type of Development	City/Region	Country of Origin	Value of Project (US \$ million)
30.	Project for buildings, roads, bridges and other infrastructure	Arusha	China	0.9
31.	Warehouse for special economic corridor	Dar es Salaam	Cyprus	407.595
32.	Warehouse	Coast region	Lebanon	5.1
33.	Office building*	Dar es Salaam	UK	5.171
34.	Storage facilities*	Dar es Salaam	South Africa	2.846
35.	Storage facilities*	Dar es Salaam	Iran	5.0
36.	Housing estate*	Dar es Salaam	Somali	323.196

Source: TIC Research and Statistics Department (2011).

*The building projects were for expansion

It should be noted that, a good number of foreign real estate developers/investors listed in Table 18 had just started to invest in Tanzania real estate market. However, the country has already recorded a number of foreign real estate developers/investors since the reforms period. Some of large foreign real estate investors currently in Tanzania include Integrated Property Investments Ltd. (IPI), CDC and Aga Khan Foundation all of the UK, Island View of Botswana, African National Congress of South Africa, and a number of small investors mainly from Middle East, India, China and some other African countries.⁴²³ Also London-based Rutley Capital Management has recently shown interest to invest in East African real estate market including in capital city of Tanzania.⁴²⁴

Acceleration of structural and institutional reforms, as well as creation of new institutions, led to improvement in the investment climate, increased foreign direct investment (FDI) flows, and job creation.⁴²⁵ To a large extent, reforms in land sector had positive effects. Observations show increasing trend of real estate development since the reforms. About 55% of the interviewees considered land reforms as one of the competitive advantages of the real estate industry. Reforms which led to the enactment of land legislations such as Land Acts of 1999, Mortgage Finance (Special Provisions) Act of 2008, Unit Titles Act No. 16 of 2008 etc. created competitive development and investment environment for both real estate developers/investors and financial institutions. For instance, amendment of the Land Act No. 4 of 1999 on mortgages has changed the perception of financial institutions, which are at present

⁴²³ See Kusiluka (2012), p. 9; Kusiluka (2008), p. 4.

⁴²⁴ Rutley Introduces East Africa fund, online, under: <http://www.euromoney.com/Article/1778190/Category/17/ChannelPage/9428/Rutley-introduces-east-Africa-fund.html>

⁴²⁵ See Muganda (2004), p. i.

increasing interest in issuing loans for real estate development and purchase purposes. Also, following the enactment of the Unit Titles Act of 2008, one can own a residential unit without having to go through the bureaucratic procedures of acquiring land and on getting the necessary documentation from the local authorities or Ministry of Lands. In addition to that, establishment of TMRC is another good opportunity for the individual developers and purchasers to access housing mortgage finance. As already outlined in the previous sections, there is no doubt that, Tanzania real estate industry has substantially benefited from the reforms.

However, one interviewee⁴²⁶ was not satisfied with the speed of implementation of the recently enacted legislation. The interviewee was of the opinion that, the passing of the regulations, rules and guidelines for the new enacted Acts has been slow after the Acts had been passed. Concerns expressed by the interviewee concur with Pedersen (2010a; 2010b); Deininger et al. (2012)⁴²⁷ who note that, for more than 10 years of the land laws reform, its implementation has been slow in Tanzania.

4.3.2.1 Factors Attracting Foreign Real Estate Investors to Tanzania

It was also interesting to establish the motives for foreigners' investment/development in the Tanzanian real estate market. The study noted that, 67% of foreign developers and investors considered high demand and 33% considered high return as motivation to their investment in Tanzanian real estate market. However, some literature on foreign real estate investors provides that, in addition to the search for higher returns on foreign markets, diversification is also considered as one of the main motives.⁴²⁸ In addition to that, Lim et al. (2006)⁴²⁹ note that, although emerging economies possess high earning potential, they also display a high-risk environment investing in real estate. To the contrary, Gordon (1991)⁴³⁰ insists that, the international diversification of pure real estate portfolios can reduce the amount of risk to the portfolio.

⁴²⁶ See Real Estate Professional 1 (14.09.2011), Interview.

⁴²⁷ See Pedersen (2010b), p. 2; also see Deininger et al. (2012), p. 87.

⁴²⁸ See Rothenberger (2010), p. 22; see Conover et al. (2002), p. 17 and p. 20-23; see Cheng et al. (1999), p. 469; also see Lim et al. (2006), p. 268-269 and p. 275.

⁴²⁹ See Lim et al. (2006), p. 274.

⁴³⁰ See Gordon (1991), p. 42.

Furthermore, the surveys undertaken by Lim et al. (2006)⁴³¹ reveal that, apart from risk reduction through diversification and the search for higher returns; the sound economic policies and market-orientated reforms in foreign countries, better economic, political, and social conditions on foreign markets, and lack of investment opportunities in domestic markets as some of the most common motives mentioned for engaging in foreign real estate investment. Although many respondents mentioned high demand and high return as factors motivating foreign developers and investors in Tanzanian real estate market, a number of factors mentioned by Lim et al. (2006) seem to be relevant for foreign developers' decisions to invest in the country.

It was observed that, a majority of foreign real estate developers/investors had invested in multi-purpose properties providing space for office and retail and some provide additional space for residential apartments. It was also noted that, almost all foreign developers/investors covered in this study had just started investing in Tanzania. Therefore, they had either one or two projects. Most of their projects are large scale. Respondents were also asked to provide the reasons for their choices of property type. As for their motives for investment, 67% mentioned high demand in commercial and modern residential properties, while 33% mentioned high return from the mentioned properties type as the reasons for their investment decision in those property types. Most of foreign developers/investors' project developments were either for sale or lease, or both.

Only a small number of foreign developers (33%) disclosed the amount of expected return and the payback period for their projects. One respondent⁴³² revealed that, rent charge was US \$ 20 per square metre per month (service charge inclusive). The expected return was between 12%-15% for commercial space, and between 8%-10% on sale of apartments, while payback period was 7 years. Another one⁴³³ said that, rent charge was also US \$ 20 per square metre per month (service charge inclusive). The expected return was 13%, while payback period was 9 years. However, the rate of US \$ 20 was only reported on new buildings, (most of the prevailing rates for commercial space are below US \$ 20). A summary of type of properties, rent charges,

⁴³¹ See Lim et al. (2006), p. 268.

⁴³² See Foreign Real Estate Developer 1 (18.10.2011), Interview.

⁴³³ See Foreign Real Estate Developer 2 (21.10.2011), Interview.

return and payback period from all real estate developers (i.e. local and foreign) interviewed by this study is as shown in Table 19.

Table 19: Rent, Return and Payback Period for Commercial and Residential Properties

Type of Property	Rent (US \$)	Return (%)	Payback period (years)
Commercial ⁴³⁴	8-20	8-14	7-12
Residential ⁴³⁵			
1-2Bedroom apartment	800-2000	8-12	10-15
3Bedroom apartment	2500-3000		
4Bedroom apartment	3500-4000		
Apartment in most prime areas	4500-5000		
Detached residential building	5000-6500		
Retail ⁴³⁶	5-24	10-15	8-15
Parking lot ⁴³⁷	30-70	-	-

Source: Own Illustration.

Generally, rent for commercial buildings is charged depending on the location and quality (grade) of rental space. The list of property developers covered in this study ranged from medium to large developers with most of their properties being either modern or located in good commercial or residential neighbourhoods. This means that, low quality office spaces are charged less than the figures shown in Table 19. A study by Rothenberger (2010)⁴³⁸ reveals that, Tanzania's sizeable returns in comparison with African and international standards were mainly achieved within the commercial real estate sector. Rent for residential space also varies depending on size, quality, location and type of property. Unlike rents for commercial properties, rents for residential properties are charged based on the size of accommodation per month.

It should be noted that, a majority of rental apartments entered the market in 2000s. However, it has been established that, a majority of tenants occupying the apartments

⁴³⁴ The rates are charged per square meter per month. Rates are service charge inclusive but VAT exclusive.

⁴³⁵ Rates are VAT exclusive.

⁴³⁶ The rates are charged per square meter per month. Rates are service charge inclusive but VAT exclusive.

⁴³⁷ The rates are charged per car bay per month.

⁴³⁸ See Rothenberger (2010), p. 193.

especially in prime residential areas are foreigners. Nabweteme et al. (2011)⁴³⁹ and Lotta (2012)⁴⁴⁰ observe that, there is high effective demand for residential apartments in Dar es Salaam. The absorption rate for the apartments, amongst others, depends on location, type of property, rent charged and supply of apartment in the market. The study provides further that, it normally takes 1-3 months to achieve full occupancy rate for those properties. Pre-sale and pre-letting of properties are also very common in prime areas.

4.3.2.2 The Attractiveness of the Real Estate Investment to the Developers

Real estate developers were asked to express their opinion on the attractiveness of the real estate investment compared to other investments. A summary of the opinions is as provided in Table 20.

Table 20: Aspects Making Real Estate Attractive for the Real Estate Developer

Aspects mentioned	No. of frequency of mentioning
Strong demand for all property type	14
Long-term and regular income flow	10
Frequent increase in inflation rate put real estate in a competitiveness position	8
Value appreciation	7
High rents (especially in city centre)	6
Mortgage Finance Act of 2008 and Unit Titles Acts of 2008 increases attractiveness of real estate investment	6
At present, return on property investment is slightly higher (8-15%) compared to 11-12% (Treasury Bonds) and 13-13.5% (Treasury Bills)	4

Source: Own Illustration.

Many items in Table 20 have been discussed within the present work. Strong demand for commercial and residential properties scored the highest ranking followed by long-term and regular income flow. Frequent increase in inflation rate was also considered as one of the reasons for favouring investment in real estate. Inflation had reached 18.7% in April 2012.⁴⁴¹

⁴³⁹ See Nabweteme et al. (2011), p. 41.

⁴⁴⁰ See Lotta (2012), p. 45.

⁴⁴¹ This is annual headline inflation; see BoT (2012b), p. 1.

4.3.3 Abundant Land Resources

Tanzania is endowed with abundant land resources which offer good investment opportunities in real estate sector. The country is measured at 945,087 km², however, there are no data to show to what extent that land has been developed. It should also be noted that, the investment potential of the land sector has not been fully realised due to a number of challenges. Amongst the challenges include lack of mortgage finance, lack of serviced and surveyed land, failure of the land delivery system, and lack of land bank especially for foreign investors. Despite the mentioned challenges, the sector offers a number of opportunities to the investors. Also the government has put a lot of efforts through its agencies to address the weaknesses in the land sector. For instance, through TIC, the government is finalising the process of consolidating a land bank, hence facilitating access to investment land. Since 2004, MoLHHSD and TIC have identified 317 land parcels totalling 1,970,775 hectares for the land bank.⁴⁴² However, the availability of the said land depends on the government's financial capacity to clear third party interests (i.e. payment of compensation) and to undertake survey.

As it can be seen in Figure 21, observation shows that almost 60% of interviewees amongst real estate developers and professionals considered abundant land resources as one of the competitive advantage for the Tanzanian real estate industry. However, the findings show further that, more than 90% of respondents were unhappy on the accessibility to land. The respondents maintained that, although the country has a lot of undeveloped land, accessing land is not an easy task. One has to go through a number of discouraging bureaucratic procedures. This observation concurs with Makwarimba and Ngowi (2012)⁴⁴³ who also observe that, although there are many areas with unutilised land in Tanzania, it does not imply that the same is easily accessed and could be availed for development or investments purposes.

4.3.4 A Rise in Demand for Properties

Increase in demand for real estate is to a great extent caused by increase in population and urbanisation. Although there are no estimates of effective real estate demand for Tanzania, (due to lack of robust data on household incomes and land and

⁴⁴² See TNBC (2009), p. 21.

⁴⁴³ See Makwarimba/Ngowi (2012), p. 65.

property prices; and lack of information on the existing stock against consumption), there has always been demand for real estate especially in urban areas of Tanzania following high urbanisation trend. Despite lack of information on demand for and supply of real estate in Tanzania, the real estate sector is considered to have high demand. For instance, Rothenberg (2010)⁴⁴⁴ notes the existence of relatively strong demand for high-quality space in real estate market in Tanzania. Cushman and Wakefield (2011)⁴⁴⁵ point out that, the supply in prime space is insufficient in seven countries in Africa including Tanzania.

National Housing Corporation (NHC) which already owns 2,311 properties, comprising 16,457 residential and commercial units⁴⁴⁶ intends to construct over 15,000 housing units in a five year period (2010-2015). By August 2012, a total number of 827 units had been already constructed, in Dar es Salaam (525 units), Arusha (152 units) and Dodoma (150 units). Most of the said properties were pre-sold. Table 21 shows the unit price of the 827 housing units constructed by NHC.

Table 21: NHC Newly Constructed Housing Units in 2011/2012

S/No.	Project	No. of Units	Selling Price (TZS) per unit (VAT inclusive)
1.	Medeli, Dodoma	150	135,582,000
2.	55 Haile Selasie, Arusha	4	295,000,000
3.	Ubungu, Dar es Salaam	80	80,181,000
4.	Kibla Arusha	48	204,000,000
5.	Mbweni JKT, Dar es Salaam	34	Between 60-130 million
6.	Mchikichini, Dar es Salaam	48	198,523,200
7.	Levolosi, Arusha	100	98,000,000
8.	Chang'ombe, Dar es Salaam	80	Not yet priced but expected price is 100,000,000
9.	Mindu, Dar es Salaam	60	Not yet priced but expected price is 300,000,000
10.	Kibada, Dar es Salaam	223	Not yet priced but expected price is 41,300,000 for 2 bedroom and 53,000,000 for 3bedroom
TOTAL		827	

Source: NHC (2012), Interview.

Also an interview with the Chief Executive of the Tanzania Building Agency (TBA) by TanzaniaInvest (2008)⁴⁴⁷ reveals that, there are many investment opportunities in real

⁴⁴⁴ See Rothenberger (2010), p. 103.

⁴⁴⁵ See Cushman/Wakefield (2011); as quoted from Schulte/Rothenberger (2011), p. 3.

⁴⁴⁶ See Local Real Estate Developer 8 (23.09.2011), Interview; also see Kusiluka (2012), p. 71.

⁴⁴⁷ See Tanzania real estate sector in the TanzaniaInvest (2008), online under: <http://www.tanzaniainvest.com/tanzania-construction-and-real-estate/reports/57-tanzania-real-estate-sector-report>

estate in Tanzania. He also notes that demand for real estate is high for the TBA to fulfill. For instance, until 2008, TBA was capable of building only about 250 houses every year, but the Agency had about 350,000 customers. To a great extent, the developments in services business activities as well as increases in the overall population growth of the country have created a demand for real estate. As already outlined within the previous sections, apart from other property types of which deficit could not be determined, housing deficit in Tanzania is estimated at 3 million units. This offers opportunity for real estate developers and investors to invest in the sector.

Although land owners may acquire land for different motives, increase in demand for plots could also be one of the indicators for increase in demand for properties. Available data on demand for plots between 1990 and 2001⁴⁴⁸ shows that, the average annual demand for plots in Dar es Salam city only was 20,000 plots while the average annual supply was under 700. At the national level, the annual demand for formal land between 1991 and 2001 was 150,000 plots, while the supply averaged 8,000 surveyed plots annually, indicating an annual shortfall of 95%.

Analysis of interviews also showed that, about 70% of the interviewees regarded increase in demand for properties as one of the competitive advantages for the real estate industry in the country. One foreign developer had this to say regarding demand for properties in Tanzania:

The country has a shortage of property almost for all property type. The commercial development which is under construction is the first one for my company. The company however intends to develop more properties for multiple uses in the near future.⁴⁴⁹

However, amongst other reasons, lack of conducive funding mechanisms, difficulties with land rights, poor infrastructure, and lack of surveyed and serviced land⁴⁵⁰ have been cited as some of the hindrances in fulfilling demand for properties.

⁴⁴⁸ See BoT (2009b), p. 14; also see UN-HABITAT (2005b), p. 15.

⁴⁴⁹ See Foreign Real Estate Developer 1 (18.10.2011), Interview.

⁴⁵⁰ For lack of conducive funding mechanisms, see NHC (2010), p. 7; BoT (2009b), p. 52; UN-HABITAT (2008), p. 5; UN-HABITAT (2005b), p. 15; Kyessi/Germain (2010), p. 200; and also Mwiga (2011), p. 56. For difficulties with land rights, see BoT (2009b), p. 1. For poor infrastructure and lack of surveyed and serviced land, see BoT (2009b), p. 53; UN-HABITAT (2005b), p. 15; and Mwiga (2011), p. 11.

4.3.5 Stable Political Environment

Stable political environment was mentioned by 70% of interviewees as one of the competitive advantages of Tanzanian real estate industry. A report by Economic Commission for Africa (2004) and (2012)⁴⁵¹ mentions political instability as one of the reasons which place a number of African countries in the list of least competitive countries in the trade enabling environment. The report also notes that, political instability is one of the reasons which creates the general perception of Africa as a riskier investment environment than other developing regions. Furthermore, the report provides that, due to political instability for instance in oil-rich North African countries, there is slowdown in economic sectors' growth.

A stable political environment tends to improve the trade-enabling environment as well as business competitiveness. The respondents' observation on the importance of stable political environment in gaining competitive advantage concurs with different strands of literature. For instance, authors such as World Bank (2011b); Eichholtz et al. (2011); Gerlach and Yook (2011); Ascari (2010)⁴⁵² underscore the fact that, political risk is one of important constraints for cross border investment and especially in developing countries. Also another study by Lim et al. (2006)⁴⁵³ reveals that, apart from other factors, political stability is considered to be the most important factor underpinning real estate investment in Africa. Generally, Tanzania performs reasonably well in the areas of political and macro-economic stability, and investors rarely face unexpected and arbitrary forms of political interference.⁴⁵⁴

4.3.6 Presence of TIC and Incentives in Real Estate Sector

About 50% of the respondents considered the presence of TIC to be one of the competitive advantages for the Tanzanian real estate sector. Being one-stop shop, TIC provides a link between real estate developers and investors and the Tanzanian investment environment. As previously seen in Table 18 more than 30 developers had registered their projects with TIC in the year 2010, implying that all these developers got the benefits of fiscal and non-fiscal incentives packages offered by the Centre. A

⁴⁵¹ Economic Commission for Africa (2004), p. 89; also see Economic Commission for Africa (2012), p. 13, p. 36 and p.134.

⁴⁵² See World Bank (2011b), p. 7, p. 18 and p. 20; Eichholtz et al. (2011), p. 155-156; Gerlach/Yook (2011), p. 14 and p. 16; Ascari (2010), p. 39.

⁴⁵³ See Lim et al. (2006), p. 274.

⁴⁵⁴ See Cooksey/Kelsall (2011), p. 36-37.

study by Rothenberger (2010)⁴⁵⁵ notes that, tax incentives, granted by the TIC, have increasingly been appreciated by foreign real estate investors, which have inter alia benefited from reduced customs duty and deferred VAT on investments in infrastructure and commercial real estate, corporate income tax holidays for up to 5 years, the removal of the 5-year limit for carrying forward losses as well as a 100% capital allowance deduction in the years of income.

The respondents who regarded incentive packages to be one of the competitive advantages in the real estate sector provided further details. Two of those respondents revealed that, their organisations had already enjoyed tax incentives offered through TIC. One respondent⁴⁵⁶ mentioned that, her organisation managed to get TZS \$ 4 billion as tax exemption by registering their on-going commercial property development project with TIC. Without mentioning the amount of tax incentive, another respondent⁴⁵⁷ mentioned building projects for University of Dodoma and Nelson Mandela Institute of Science and Technology as some of the buildings whose developers got substantial tax incentives. More than TZS 1 trillion is invested in these projects.

Some respondents seemed to be indifferent with the TIC incentives packages and on its implementation. Two local developers⁴⁵⁸ had this to say on TIC incentive packages and its implementation:

..... after TIC issues a Certificate of Incentive, the developer/investor is required to pay VAT first with the promise that she/he is going to be refunded later. Practically, it takes a long time to get such refunds (Local Real Estate Developer 8 (23.09.2011)).

..... there are developers who cheat when applying for TIC exemptions; these developers misuse the incentives by diverting it into businesses deals. For instance, they prepare documentations which show large quantity of imported building materials than what is exactly needed in their development projects. The business deals are made out of the difference in imported quantities (Local Real Estate Developer 11 (13.10.2011)).

⁴⁵⁵ See Rothenberger (2010), p. 97.

⁴⁵⁶ See Local Real Estate Developer 13 (06.10.2011), Interview.

⁴⁵⁷ See Local Real Estate Developer 10 (03.10.2011), Interview.

⁴⁵⁸ See Local Real Estate Developer 8 (23.09.2011), Interview; also see Local Real Estate Developer 11 (13.10.2011), Interview.

In addition to that, one foreign developer⁴⁵⁹ also complained about the long time it took to get TIC Incentive Certificate and tax refund. Regarding TIC incentives packages, the observation of this study concurs with Cooksey and Kelsall (2011); World Bank (2005b)⁴⁶⁰ who note that, although TIC incentives packages helped to attract investors to the country, its implementation has tended to be poor.

4.4 Drivers and Barriers for Real Estate Development Growth

4.4.1 Drivers for Real estate Development Growth and Competitiveness

The demand for real estate for all uses is booming due to economic growth, increasing urbanisation and demographic developments. For instance, apart from a number of residential units constructed by NHC, TBA and private developers for the past decade, the number of commercial properties from private developers and pension funds in Dar es Salaam city has been increasing. Commercial buildings such as PSPF Golden Jubilee Towers (26,000m²), Uhuru Height (60,000m²), Viva Towers (15,000m²), Quality Centre (30,000m²), Red Cross House (11,880m²), Amani Place (13,500m²), Kibo Complex (5,000m²), BMTL House (4,700m²), Baraka Plaza (4,500²), Derm Complex Tower (3,800m²), etc. are just a few examples among many properties which have been constructed recently (i.e. 2000-2012) and several others in the pipeline. Implementation of the East African Community (EAC) common market and monetary union is also likely to increase demand for office space in the city.

Tanzania has a population of about 45 million people. The projected future trend shows that the population growth will keep on increasing. UN-HABITAT (2005a)⁴⁶¹ projects the population to grow to more than 55 million people by 2030. The ever growing population and rampant increase in economic activities in the country will stimulate demand for real estate in cities and major towns. This is taken as an opportunity for developers and investors for venturing in the real estate sector. From the interview, it was revealed that many on-going commercial buildings had almost 90% occupancy rate before they are even completed. For instance, one local

⁴⁵⁹ See Foreign Real Estate Developer 1 (18.10.2011), Interview.

⁴⁶⁰ See Cooksey/Kelsall (2011), p. 50; also see World Bank (2005b), p. 153.

⁴⁶¹ See UN-HABITAT (2005a), p. 189 and p. 192.

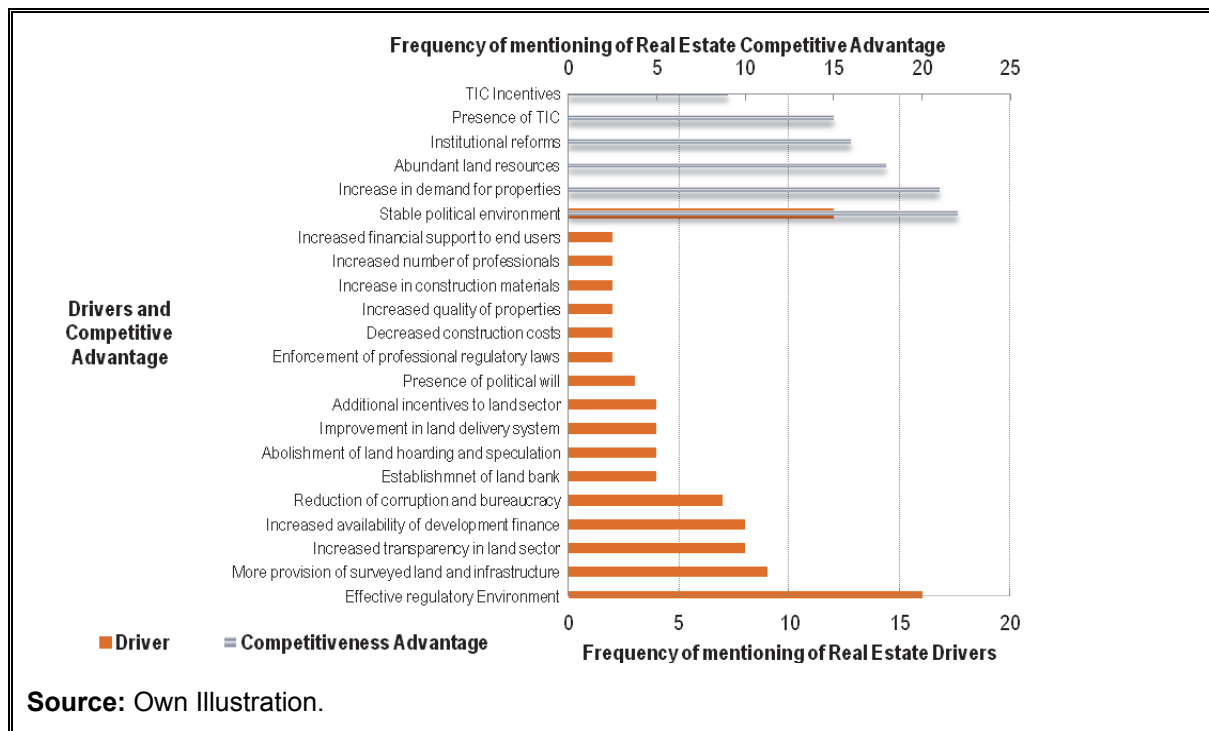
developer⁴⁶² revealed that, their building which was opened in 2012 was by 95% occupied before its opening. As one of institutional developers, NHC has a good record of selling its recently constructed residential apartments all over Tanzania.

Analysis of competitiveness provides useful information for real estate developers and investors to make rational decisions of whether or not it is the right time to engage in Tanzanian real estate market. It also helps developers and investors to adapt to the existing environment by taking proper strategies for entering the local market. Interviewees amongst real estate developers and real estate professionals were asked to describe the competitiveness position for the real estate sector and the key existing and potential drivers for enhancing competitiveness in the industry. Regarding the competitiveness position, the respondents mentioned 6 attributes which place the real estate sector on a competitive position. The attributes include abundant land resources, increase in demand for properties, institutional reforms, stable political environment, presence of TIC as a one-stop centre for investors, and incentives offered by TIC to real estate developers and investors. Out of the mentioned attributes, stable political environment scored the highest rank, followed by increase in demand for properties and abundant land resources.

Also the interviewees mentioned 16 items which if explored effectively would form the driving forces for enhancing growth and competitiveness in the real estate industry. Effective regulatory framework scored the highest ranking as the driving force for competitiveness followed by stable political environment, and more provision of surveyed and serviced land and infrastructure. About 80% of foreign developers mentioned stable political environment as one of the competitiveness advantages in Tanzania real estate market. Increased transparency in land sector and availability of development finance were ranked 4th and 5th respectively. Figure 21 shows the competitiveness position and the driving forces to enhance competitiveness. Number of frequency at which an item was mentioned by interviewees forms the basis for ranking. The bars in the figure show the ranking of each item mentioned.

⁴⁶² See Local Real Estate Developer 9 (24.10.2011), Interview.

Figure 21: Real Estate Competitive Advantage and Potential Drivers for Real Estate Development



As shown in Figure 21, many items which were mentioned by respondents were specifically relevant to Tanzanian real estate market. However, other mentioned items had also received considerable attention as competitiveness drivers worldwide. These items include regulatory environment, transparency in land sector, corruption and bureaucracy, and development finance. These items are as discussed below.

4.4.1.1 Effective Regulatory Environment

A poor regulatory environment undermines business competitiveness and it encourages corruption.⁴⁶³ With reference to Figure 21, it was a concern of more than 50% of respondents that effective regulatory environment is one of the competitiveness drivers in the real estate industry. Under regulatory framework, respondents mentioned change in legal procedures, effective regulation on prices of construction materials, overall effective regulation of real estate sector, enforcement of land laws, realistic prices of land and property, and realistic cost of property development as important regulatory framework aspects in the real estate industry.

⁴⁶³ OECD (2010), p. 7.

The observation of this study concurs with the existing literature regarding the regulatory framework as a driving force for competitiveness. Existing literature shows that, regulatory framework is the basis of creating competitive business environment.⁴⁶⁴ Although there are still some activities in the real estate industry which need new regulatory framework, it is clear from the respondents that the main challenge at present is on effective enforcement of the existing real estate related laws and regulations. New regulatory framework is also needed to take care of things such as land and property prices (at present prices are highly inflated), cost of construction materials and quality control of imported construction materials.

4.4.1.2 Transparency in Land Sector

A more transparent real estate market will attract foreign investors especially those from developed countries who are still overly skeptical about the African market partly due to lack of transparency.⁴⁶⁵ As one of the challenges in real estate sector (refer to section 5.5.5), transparency in real estate sector in Tanzania has received considerable attention of many authors (see for instance, World Bank (2010a); Kironde et al. (2003); Kironde (1997)).⁴⁶⁶ Another author⁴⁶⁷ also observes that, lack of transparency is one of the reasons for prevalence of agency problems in the real estate investment activities in Tanzania. More than 25% of respondents mentioned increased transparency in land sector as one of real estate competitiveness drivers. As shown in Figure 21, the item scored 4th position in the ranking.

4.4.1.3 Increased Availability of Development Finance

Increased availability of real estate development finance scored 5th position in the ranking for competitiveness drivers. The country still suffers from ineffective real estate financing mechanisms. It is undisputable that, competitiveness and growth in the real estate sector are highly driven by availability of development finance.

A total of eight financial institutions (i.e. Azania Bank, NBC, CBA, Exim, CRDB, Stanbic bank, BOA, and KCB) whose nine officials were interviewed during this study,

⁴⁶⁴ See Rao et al. (2006), p. 95; Harriot (2009), p. 3-4 and p. 26; OECD (2010), p. 7 and p. 41-42; also see Fernando et al. (2008), p. 15.

⁴⁶⁵ See Kusiluka (2012), p. 244; also see Rothenberger (2010), p. 84.

⁴⁶⁶ See World Bank (2010a), p. 2 and p. 37-38; Kironde et al. (2003), p. 33-34; also see Kironde (1997), p. 102.

⁴⁶⁷ See Kusiluka (2012), p. 237.

showed that all banks issued loan for real estate purpose. However, these banks differed on the specification of property type and ownership type which each prefer to lend. Seven banks (87.5%) have no specific type of properties (i.e. they issue loans for commercial and residential purpose), while one bank (12.5%) issues loans only for residential purpose (specifically for house purchase, renovation or refinancing purpose). Despite acknowledging that they had no specification on property type, four out of seven banks issued loans either for residential house purchase, house expansion or house renovation purpose at present. These banks had either not engaged in lending for commercial properties. Three banks issued loan either for commercial or residential construction purpose. In addition to that, out of all banks whose officials were interviewed, 37.5% have separate departments for real estate loan customers i.e. individuals and corporate customers.

Most of customers who applied for loan for commercial building construction purposes were served in corporate departments. This observation shows some positive development in the financial institutions' lending to real estate. To a great extent, lending to the real estate sector shows some improvement since the enactment and amendment of many pieces of land legislation including Mortgage Finance (Special Provisions) Act, 2008, Land (Amendment) Act of 2004, and Unit Titles Act, No. 16 of 2008.

Other competitiveness drivers specifically for Tanzania real estate market as mentioned by respondents are discussed below.

4.4.1.4 Increasing the Supply of Surveyed and Serviced Land, and Infrastructure

While government interventions such as land use regulations, property rights, taxation, and infrastructure investments are necessary, they become serious obstacles to the development of cities when poorly designed.⁴⁶⁸ Respondents place more weight on provision of surveyed and serviced land, and infrastructure. The item was ranked 3rd on the competitiveness drivers in real estate industry. To a great extent, this has been a problem in Tanzania. The inability of providing surveyed land could be linked directly to the ineffectiveness of land delivery system. However, service and infrastructure

⁴⁶⁸ See Dowall/Ellis (2009), p. 2288.

provision in urban areas involve a number of stakeholders, each of whom work in isolation in most cases. For the effective institutional framework for land delivery, service and infrastructure provision, this study sees the need for a joint participatory approach of all key stakeholders in land and service, and infrastructure provision. Such coordination would enhance not only competitiveness but also speedy growth of real estate sector.

4.4.1.5 Reduction of Corruption and Bureaucracy

Respondents were of the opinion that, competitiveness in land sector would be enhanced if corruption and bureaucracy were eliminated from the sector. Although, the country has plenty of undeveloped land, investors cannot access land easily because laws, regulations and processes are difficult, long, bureaucratic, corrupt and inefficient.⁴⁶⁹ At present, it takes a long time for one to obtain a land ownership certificate, to get transfer of ownership, to obtain a building permit and to get approval of other documentations. From the interviews, it was clear that, corruption was prompted by the bureaucratic procedures associated with the processing of land related documents. However, MoLHHSD has recently decentralised the processing of the certificates of Right of Occupancy. It is now undertaken in zonal offices, which could speed-up the processing. In addition to that, there is a need to computerise the process of preparation of building permits and other documents. Further discussion on corruption and bureaucracy is presented in section 4.4.3.4.

4.4.1.6 Establishment of Land Bank

Land banking strategy is a developer's major strategy in order to maintain competitiveness in the market.⁴⁷⁰ To show the importance of land bank, Zhang et al. (2010a) for instance provide further that, presence of land banking is the critical criteria for real estate companies to be listed in stock exchange in China. If the real estate industry has no storage of the land resources, even if it owns the forerunner's mechanism, excellent talents and ample funds; it will be worthless.⁴⁷¹ The plentifulness of the land resources enables foreseeing future development of the real

⁴⁶⁹ See Makwarimba/Ngowi (2012), p. 62.

⁴⁷⁰ See Zhang et al. (2010a), p. 536.

⁴⁷¹ See Zhang/Song (2007) as quoted from Wei et al. (2007), p. 119.

estate industry directly.⁴⁷² There is no denying, however, that land bank has significant importance for real estate developers and investors in Tanzania. Establishment of land bank scored 7th position in the ranking. To show the significance of land bank in Tanzania, it was revealed that, one foreign real estate developer who planned to build some 212 mortgage housing units in Dar es Salaam decided not to continue with the project due to problems related to land acquisition.⁴⁷³ The problems could have been avoided if TIC had a comprehensive land bank from which investors, especially foreign investors, could lease land.⁴⁷⁴ Supporting the need to have a land bank for property developers, Evans (2004)⁴⁷⁵ says that, a restrictive and uncertain planning process increases the length of time required to get from starting the search for a site to starting construction work on it, and so is in itself encouraging the holding of land banks.

4.4.1.7 Abolishment of Land Hoarding and Speculation

Land speculation is where land is bought by prospective and actual investors but is not developed and remains idle and unproductive but inaccessible to others who could have made use of it.⁴⁷⁶ Land speculators are to blame for high cost of real estate in Tanzania.⁴⁷⁷ Land hoarding and speculation is one of major issues which needs to be properly addressed so as to achieve competitiveness. This practice creates artificial land scarcity. Land speculation is done deliberately by land owners with the intention of either selling when prices go higher or just keeping it for their future generations. To a large extent, the practice denies land availability and accessibility by serious developers. One of the local developers⁴⁷⁸ notes that many Tanzanians do not part with land; they just keep it for future generations. The respondent added further that, the mentality does not only increase the tendency of land hoarding but also discourages the growth of the sector. Consider the following statement which was given by one interviewee as quoted by Mwiga (2011):⁴⁷⁹

⁴⁷² See Wei et al. (2007), p. 119.

⁴⁷³ See the Guardian, 6th October (2010).

⁴⁷⁴ See Kusiluka (2012), p. 184.

⁴⁷⁵ See Evans (2004), p. 178.

⁴⁷⁶ See Makwarimba/Ngowi (2012), p. 60.

⁴⁷⁷ See The Citizen, 17th April (2012a).

⁴⁷⁸ See Local Real Estate Developer 4 (14.09.2011), Interview.

⁴⁷⁹ See Mwiga (2011), p. 57.

.....since there was no restrictions on the number of government surveyed plots to buy, I bought 4 plots; one for me, another one for me and my wife (couple), and the other two for my children, they will develop in future. What I did is only to lay foundation on every plot.

4.4.1.8 Improvement in Land Delivery System

Improvement in land delivery system was ranked 9th in the competitiveness drivers. Generally, the scarcity of land for development is created by the planning system; this scarcity gives market power to the owners of land.⁴⁸⁰ Concerns over inefficient land delivery system in Africa and Tanzania in particular are also mentioned by a number of authors. For instance, Kironde (2000)⁴⁸¹ argues that, ineffective land delivery in Africa has caused many distortions in land transactions and investment decisions. As a result, unplanned settlements have been developing rapidly.

Furthermore, the constraints in making land easily available through the formal governmental mechanism have, over the years, forced many people to seek access to land outside government channels (i.e. informal markets).⁴⁸² Kironde et al. (2003)⁴⁸³ note that, the land delivery system in Tanzania has been remarkably ineffective, as observed through the acute shortage of planned, surveyed and serviced plots in almost all urban areas of Tanzania, unclear and clouded status of tenure, and slow and cumbersome procedures for planning, surveying, allocating and registering land by public authorities. The ineffective land delivery in Tanzania also contributes to the unprecedented growth of unplanned settlements.⁴⁸⁴ Moreover, Rothenberger (2010)⁴⁸⁵ notes that, Tanzania's inefficient land delivery system remains to be a further major barrier to mortgage finance.

4.4.1.9 Additional Incentives in Real Estate Industry

As already outlined in sub-section 4.3.6, only 30% of respondents regarded TIC incentives in the real estate placed the industry in the competitiveness investment position. However, the incentives which are granted seemed not to be satisfactory to

⁴⁸⁰ See Evans (2004), p. 174.

⁴⁸¹ Kironde (2000), p. 153-155.

⁴⁸² See UN-HABITAT (2010), p. 8; Lugoe (2008b), p. 9; see Sivam (2002), p. 524; also see Kironde (2000), p. 153-155.

⁴⁸³ See Kironde et al. (2003), p. 60.

⁴⁸⁴ See Kironde et al. (2003), p. 110.

⁴⁸⁵ See Rothenberger (2010), p. 98.

many real estate investors and developers. So as to enhance competitiveness, respondents were of the opinion that, more incentives could be granted in the real estate sector. Additional incentives in the real estate sector scored 10th position in the ranking. Respondents had different views on the type of incentives packages which could be introduced in the real estate sector. Some different views of the respondents are quoted below:

Incentives should be given to the producers of local construction materials so as to lower the construction costs. At present, costs of construction are too high and are never stable, this could be achieved by eliminating some taxes (Local Real Estate Developer 8 (23.09.2011)).

There should be incentives for developers to develop low costs houses to serve the majority of Tanzanians. The country should take an example of South Africa which has a policy for provision of low cost houses. Also incentives should be given to the developers who develop sustainable buildings (Local Real Estate Developer 12 (25.10.2011)).

The government should guarantee institutional developers and real estate development firms who undertake big real estate development projects when they apply for development loans in commercial banks (Real Estate Professional 6 (23.02.2012)).

4.4.1.10 Presence of Political Will

The presence of political will as one of the competitiveness driver scored 11th position in the ranking. Two respondents⁴⁸⁶ who considered political will to be a competitiveness driver, had the idea that the same strategies which have been taken by the government to transform the agricultural sector in order to eradicate poverty should also be introduced in the real estate development sector. These respondents were referring to the two programs known as *Kilimo Kwanza* and the government's Property and Business Formalization Programme (*MKURABITA*).⁴⁸⁷ *Kilimo Kwanza* was adopted in 2009 with the aim of supporting the agricultural sector in the country by creating a conducive environment for the players and acting as poverty reduction

⁴⁸⁶ See Local Real Estate Developer 8 (23.09.2011), Interview; and Real Estate Professional 1 (14.09.2011), Interview.

⁴⁸⁷ *KILIMO KWANZA* is a Swahili phrase for "Agriculture First"; *MKURABITA* is a Swahili acronym for "Mpango wa Kurasimisha Rasilimali na Biashara Tanzania".

strategy. One of the pillars of *Kilimo Kwanza* is enhancing land availability for agriculture. *MKURABITA* is a government initiative that seeks to facilitate the transformation of real estate and business assets in the informal (extra-legal) sector to formal entities held and operated within the formal market that is governed by law. The main purpose of the programme is to empower the poor majority of the population by improving access to formal financial markets and other services through formalisation of property rights and businesses.⁴⁸⁸

According to Mwabukojo (2012),⁴⁸⁹ *MKURABITA* is an outcome of political willingness to intervene in land use plan and development. The author regards *MKURABITA* as an appropriate solution towards various land disputes in the country. Available data from MoLHHSD (2008)⁴⁹⁰ shows that, out of the estimated 400,000 unregistered properties in Dar es Salaam, 220,000 properties were identified and documented during Phase I of *MKURABITA*. Completion of Phase I of *MKURABITA* enabled owners of the identified properties to apply for residential licences from their local authorities,⁴⁹¹ which have been useful in applying for bank loans.

On the other hand, the other respondent⁴⁹² insisted on the necessity of political will in the whole real estate industry as it has been done on the Export Processing Zone (EPZ). EPZ was established in 2002 so as to promote export oriented investment within designated zones with a view of creating international competitiveness for export led economic growth. Like TIC, EPZ is also a government agency offering a number of fiscal and non-fiscal incentives to investors.

The need for political will in housing and real estate activities has also been previously reported by other authors e.g. Kyessi and Germain (2010). The authors⁴⁹³ note lack of commitment and sound political will especially in dealing with housing needs of the urban poor.

⁴⁸⁸ See Pedersen (2010a), p. 10.

⁴⁸⁹ See Mwabukojo (2011), p. 4.

⁴⁹⁰ See MoLHHSD (2008), p. x.

⁴⁹¹ See Kusiluka (2012), p. 108-109; also see MoLHHSD (2008), p. x.

⁴⁹² See Real Estate Professional 8 (28.02.2012), Interview.

⁴⁹³ See Kyessi/Germain (2010), p. 200.

4.4.1.11 Enforcement of Professional Regulatory Laws

Although it was given little weight, (scored 12th position in the ranking) enforcement of professional laws to regulate the professionalism and good professional conduct was also mentioned to have significance in real estate competitiveness. This was also observed by Kusiluka (2012)⁴⁹⁴ who recommends more institutions, in terms of policies, laws, regulations and rules to address amongst other things unprofessionalism in real estate investment activities in Tanzania.

Other drivers such as decreased construction costs, increased quality of properties, increase in construction materials, increasing the number of professionals and increased financial support to end users were given little weight. This study assigns equally significant weight to the mentioned drivers as they do positively or negatively affect the real estate development growth in Tanzania. For instance, the widening gap between construction materials needs and the domestic building-materials production capacity in Tanzania has resulted into importation of cheap and poor quality construction materials especially from Asian countries. Some of the materials are not even environmentally friendly.

4.4.2 Regulatory System in the Construction Industry in Tanzania⁴⁹⁵

The government is a major institutional player in the construction industry in the country. It is represented by the ministry responsible for works, government promotional and advisory institutions, councils and regulatory bodies. Each of these organs has a specific role in regulating, monitoring and promoting construction process and its members in the industry. The regulatory environments within which building projects are carried out are as discussed below.

4.4.2.1 National Construction Council (NCC)⁴⁹⁶

NCC is a government institution established by the Act of Parliament No. 20 of 1979 with the aim of promoting and providing leadership for the growth, development and expansion of the construction industry in the country and for the development of a

⁴⁹⁴ See Kusiluka (2012), p. 236.

⁴⁹⁵ See Ntiyakunze (2011), p. 41-44; Kironde et al. (2003), p. 34.

⁴⁹⁶ See NCC website under: <http://www.ncc.or.tz/>; also see National Construction Council Act No. 20 of 1979.

sustainable and internationally competitive Tanzania construction industry. The institution operates under the ministry responsible for construction works. Its functions, among others, include to promote the development of the construction industry, to plan and co-ordinate the activities of stakeholders engaged in the construction industry, to provide advisory services and technical assistance necessary for the proper development of the construction industry, to advise the government on all matters relating to the development of the construction industry, to monitor the implementation of standards and regulations relating to the construction industry, to monitor construction costs and make suggestion for their control, to give advice on the economical use of materials for construction and to encourage the maximum use of local materials.

4.4.2.2 Contractors Registration Board (CRB)⁴⁹⁷

CRB was established by the Act of Parliament No.17 of 1997. The Board is charged with the responsibility for registration, regulation, development and promotion of activities and conduct of all contractors in the country. The Board is also responsible for setting criteria for registration of contractors in different Classes, verifying and ensuring that all works are undertaken by registered contractors, ensuring that all construction works comply with the governing laws and regulations, and liaising and interacting with local and foreign professional Boards and associations related to the construction industry.

4.4.2.3 Architects and Quantity Surveyors Registration Board (AQSRB)⁴⁹⁸

AQSRB was established under the Architects and Quantity Surveyors (Registration) Act, No.16 of 1997. The Board plays a role in promoting professionalism and enhancing excellence in the construction industry as a tool to maintain acceptable quality of the built environment. Among others, the Board was established for the purpose of providing for registration of architects, quantity surveyors, architectural and quantity surveying firms and for related matters, regulating the conduct of professionals and consulting firm, inspecting the construction, installation or erection sites for the purpose of verifying and ensuring that the works designed are supervised by registered professionals, and that they comply with all governing regulations and

⁴⁹⁷ See CRB website under <http://www.crbtz.org/>.

⁴⁹⁸ See <http://www.aqrb.go.tz/>.

laws of the country, offering advisory services to the construction industry, and conducting examinations as a mean of satisfying the Board for purpose of registration as to the competence to practice as a professional.

4.4.2.4 Engineers Registration Board (ERB)⁴⁹⁹

ERB was established under Engineers Registration Act No. 15 of 1997. The Board is responsible for regulating and monitoring engineering activities and conduct of engineers and engineering consulting firms in the country for the purpose of promoting and maintaining professional conduct and integrity of the engineering profession.

4.4.2.5 National Council of Professional Surveyors (NCPS)⁵⁰⁰

NCPS was established under Professional Surveyors (Registration) Act No. 2 of 1977. The Council is responsible for regulating the standards of conduct and activities of land surveying and valuation professionals and for matters connected with professionalism. Among the functions of the Council is to provide for registration of land surveyors and real estate valuers, regulating the standards of conduct and activities of professionals, promoting interest in, and the advancement of, the professions, offering to the government and to other national institutions technical advice on matters relating to land surveying and land economy and promoting the development of research and the application of technical information relating to land surveying and land economy.

As seen in sub-section 4.4.2, according to the pieces of legislation which established the professional Boards/Councils i.e. CRB, AQSRB, ERB and NCPS, it is mandatory for the professionals and professional firms to be registered with those Boards/Council. However, enforcement of professional laws has been one of the problems in the construction industry. Some of the institutions have not been very efficient, leaving room for professional malpractice.

4.4.3 Barriers for Real Estate Development Sector Growth

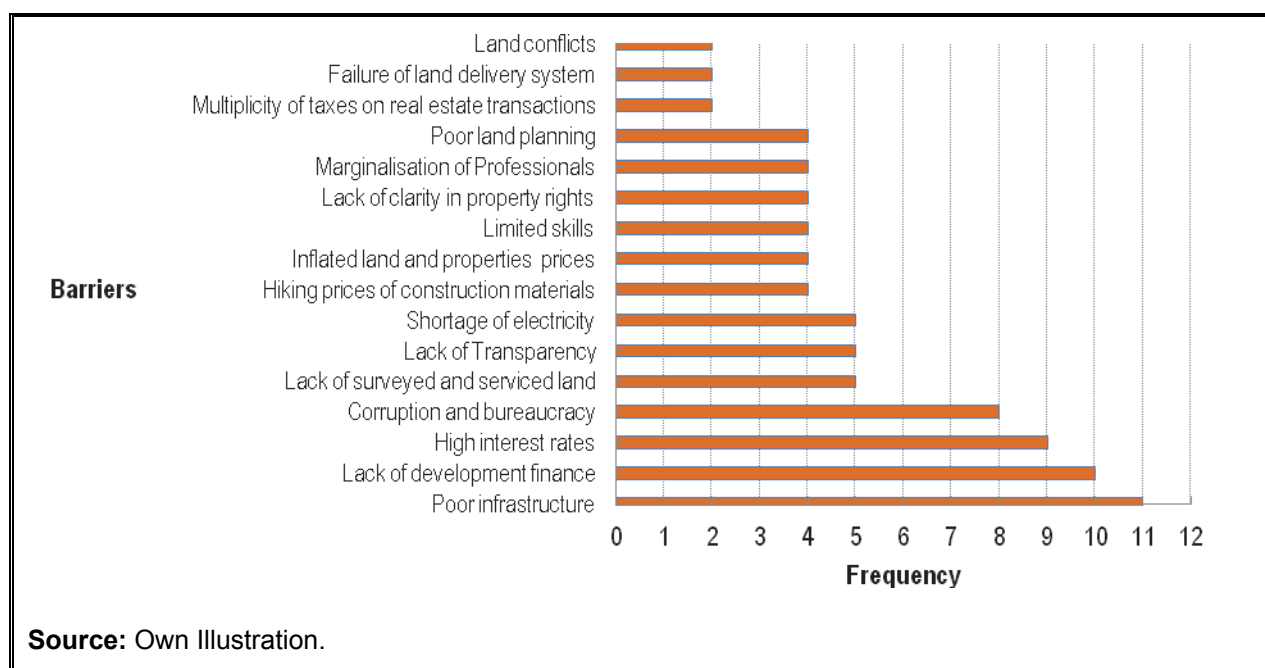
A number of barriers which hinder real estate development sector growth were identified by respondents. Amongst others they include, lack of development finance, high interest rates, lack of surveyed and serviced land, poor infrastructure, inefficiency

⁴⁹⁹ See <http://www.erb.go.tz/>.

⁵⁰⁰ See Professional Surveyors (Registration) Act No. 2 of 1977.

of land delivery system, bureaucratic procedures, shortage of electricity, and hike of prices of construction materials. Figure 22, shows the items mentioned by respondents and the number of frequency accorded to each item.

Figure 22: Barriers for Real Estate Development Sector Growth



As shown in Figure 22, a total of 16 items were mentioned by respondents which acted as barriers to the real estate sector growth. Poor infrastructure was ranked 1st, followed by lack of development finance (2nd), high interest rates (3rd), corruption and bureaucracy (4th), lack of surveyed and serviced land (5th), lack of transparency (6th), and shortage of power (7th). From the responses, it can be seen that the absence of some attributes previously mentioned as potential drivers for competitiveness, present barriers for the sector's growth (see Figure 22). Some of the barriers include issues related with development finance, surveyed and serviced land, infrastructure, corruption and bureaucracy, transparency, and land delivery system. Except for the land delivery system, generally the weight given to the other repeated items did not differ when mentioned as drivers and as barriers. This shows that, addressing the said items would create a conducive environment which leads to the growth and competitiveness of the sector. The respondents were however inconsistent on the weight placed on the land delivery system. While the item was given more weight as a driver, it received little weight as a barrier.

Apart from the items which were mentioned as drivers and barriers, other items identified as barriers to the real estate sector growth include high interest rates, inflated land and property prices, hiking prices of construction materials, lack of clarity of property rights, limited skills, land conflicts, multiplicity of taxes on real estate transactions, and poor land planning. Barriers for real estate development growth are discussed below.

4.4.3.1 Poor Infrastructure

Prosperity and competitiveness derive from infrastructure advancements.⁵⁰¹ Poor physical infrastructure (like road, water, electricity) was considered the most serious barrier for the real estate growth. Tanzania's poor state of infrastructure has been widely reported as one of the impediments for real estate activities in the country (see for instance, FINMARK TRUST (2010); Makoba (2008); Mwiga (2009)).⁵⁰² Shortage of electricity was ranked the 7th barrier. Unreliable and high-cost of electricity is regarded as one of the reasons which make the country uncompetitive.⁵⁰³

4.4.3.2 Lack of Finance

Local developers were concerned about lack of real estate finance which is also retarding the growth of the real estate business and housing markets.⁵⁰⁴ The available finances are only accessible by a very limited number of businessmen within the society. Stringent conditions and high borrowing rates tend to prevent the otherwise would be potential developers from participating in the industry.⁵⁰⁵ Lack of development finance was ranked 2nd as the barrier for real estate growth. As previously seen in sub-section 3.7.5 and 3.9.2, lack of finance is mainly caused by low capacity of banks due to the mismatch in the nature of lending and deposit. Table 22 shows the deposit and lending rates in Tanzania from 2008 to 2011. The problem of unavailability of development finance in Tanzania has been previously reported by a number of authors (see for instance, UN-HABITAT (2005b); CAHF (2011); Moss (2003); BoT (2009b)).⁵⁰⁶

⁵⁰¹ See ULI/ Ernst & Young (2008), p. 22.

⁵⁰² See FINMARK TRUST (2010), p. 15 and p. 26; Makoba (2008), p. 6-8; also see Mwiga (2009), p. 56.

⁵⁰³ See Almeida et al. (2004), p. 51.

⁵⁰⁴ See Lugoe (2007a), p. 17.

⁵⁰⁵ See Real Estate Professional 7 (26.02.2012), Interview.

⁵⁰⁶ See UN-HABITAT (2005b), p. 14-17; CAHF (2011), p. 101-103; Moss (2003), p. 9-10; also BoT (2009b), p. 1.

Table 22: Average Interest Rates in Tanzania from 2008-2012 (TZS)

	June 2008	June 2009	June 2010	June 2011	June 2012
Overall lending rate	14.8	15.5	14.7	15.0	15.3
Overall fixed deposit rate	6.8	6.8	6.0	6.0	8.6
Spread between lending and fixed deposit rate	8.0	8.7	8.7	9.0	6.7

Source: Author's compilation based on BoT (2011b), p. 16 and p. 237; BoT (2012a), p. 46; BoT (2012d), p. 10-11.

It is evident from Table 22 that the prevailing immaturity of Tanzanian financial sector contributes to shortage of development finance. However, at present, the situation seems to be improving. Compared to the past when only two financial institutions (i.e. Azania Bank and CBA) were engaged in offering mortgage loans, the country has witnessed the involvement of more banks getting attracted into lending to the real estate over the recent years. The enactment of the Unit Titles Act of 2008 and Mortgage Finance (Special Provisions) Act of 2008 have provided conducive environment for the availability of mortgage. In addition to that, the establishment of TMRC is another positive step towards solving the problem of shortage of development finance.

4.4.3.3 High Interest Rates

High interest rates which scored 3rd position in the ranking, have been previously reported as among the major barriers to real estate development and investment activities in the country (see for instance, Mwiga (2011); Makoba (2008); and UN-HABITAT, (2008)).⁵⁰⁷ About 25% of the interviewed private developers acknowledged that, they have decided to construct their properties incrementally using their own equity since they could not afford paying for the prevailing interest rates. These respondents pointed out that the interest rates that they were supposed to pay per annum did exceed even the property's annual expected return. There is also a wide concern from other interested parties that the banks could lower the interest rates so as to make loans affordable to the majority. For instance the Minister for Lands, Housing and Human Settlement (MoLHHSD) had this to say concerning the interest rates and repayment period:

⁵⁰⁷ See Mwiga (2011), p. 53; Makoba (2008), p. 177; UN-HABITAT (2008), p. 7.

.....affordable interest rates and repayment period are issues that need to be addressed urgently, the interest rates of between 15% and 20% are very high and unaffordable to mortgage seekers.... (The Guardian, 1st November 2011; Business Times, 18th, November 2011).

According to the bank officials interviewed, determination of lending interest rates amongst other things took into account risk element, profit margins, operational cost, and discount rates for some banks securing capital from the central bank. Normally, rates are calculated based on Treasury Bills rates. However, the higher the risk of the building, the higher the interest rate and vice versa. Interest rates were also lowered depending on the reputation and creditworthiness of the borrowers. For instance, for long-standing customer, the rate was lowered. Table 23 shows the prevailing interest rates for some banks in Tanzania.

Table 23: The Prevailing Interest Rates for Real Estate Loans in Tanzania as at December 2011

Retail Interest rate/Loan term				Corporate Interest rate/Loan term		
Name of Bank	Interest rate TZS (%)	Interest rate US\$ (%)	Loan term (years)	Interest rate TZS (%)	Interest rate US\$ (%)	Loan term (years)
Azania Bank	18	8.5	15	-	-	-
TMRC*	-	-	-	-	-	-
NBC	16 ⁵⁰⁸	7	5 ⁵⁰⁹	16	8-9 ⁵¹⁰	7 years (+1 year grace period)
CBA	19	-	5-20	9	-	1-7
Exim	19 ⁵¹¹	10	7 ⁵¹²	-	-	-
CRDB	17-19	-	10 ⁵¹³	14-17	-	-
Stanbic	18	8.5	15	-	-	-
BOA	19.5 ⁵¹⁴	10.5	10	-	-	-
KCB	19 ⁵¹⁵	9	6 ⁵¹⁶	-	-	-

Source: Author's Compilation, 2011.

⁵⁰⁸ The rate was reduced for long-standing customers.

⁵⁰⁹ There was no specific mortgage lending at that time, currently borrowing is mainly for expansion and rehabilitation purpose with a maximum term of 5 years.

⁵¹⁰ For large developer, the rate was reduced to US \$8-9% or \$7%.

⁵¹¹ Interest rates were adjusted depending on the analysis of individual development projects.

⁵¹² There was 1-2 years grace period.

⁵¹³ The grace period of 24 months was given.

⁵¹⁴ For long standing and good customers the rate was reduced and the treatment was vice versa for risky investment.

⁵¹⁵ Normal mortgage finance rate stood at 19% or US \$9%. Construction finance was charged floating interest rates which were reviewed periodically. Mortgage for schemes finance was 16.5% or US \$7.5%.

⁵¹⁶ KCB groups loans into three categories: (i) Development finance which had the term of 5-6 years (+1 grace year) this loan applied to the development which did not involve sale (ii) Loans for schemes which had a term of 5 years (iii) Individual loans which a term of 6 years.

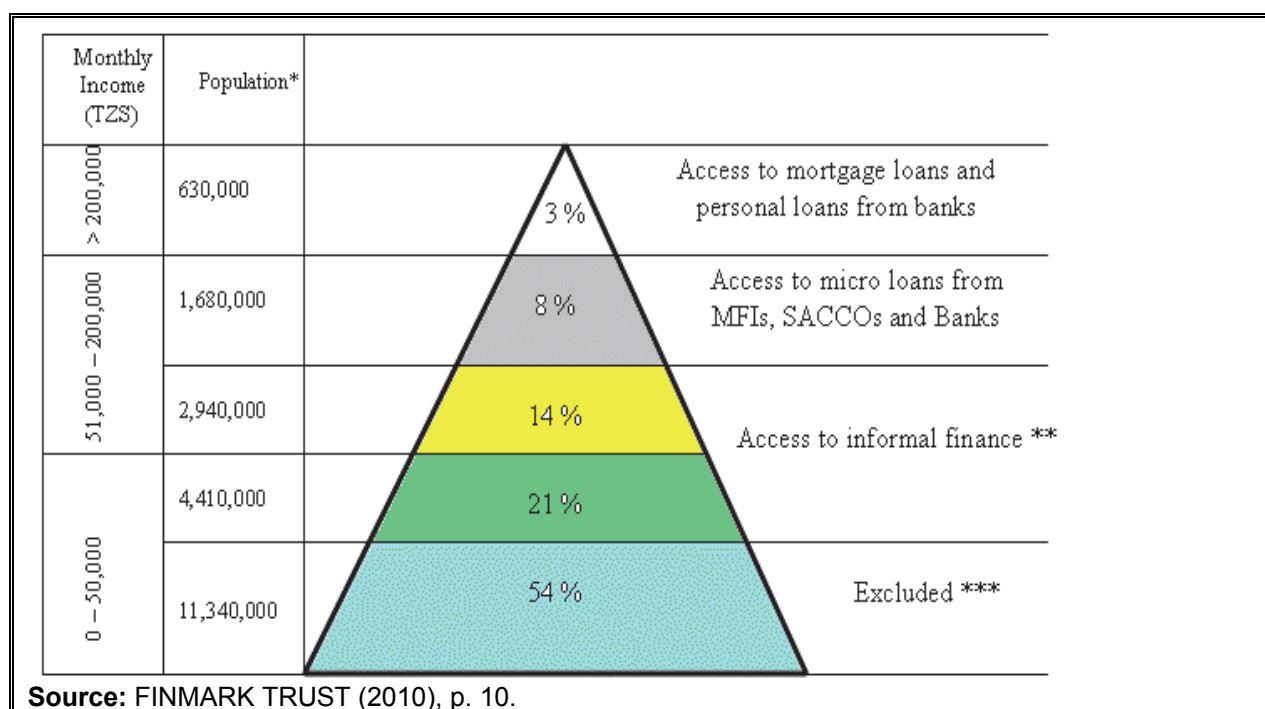
**It should be noted that, TMRC is a specialised financial institution owned by a number of banks with the sole purpose of supporting banks to engage in long-term mortgage lending by refinancing the banks' mortgage portfolios. TMRC has no specific interest rate; it prices its credit products consistently to all members. However, it may price its credit on a differential basis, based on tenor, volume, risk, or other reasonable criteria applied consistently to all members. Practically, interest rate for the loan from TMRC to member banks is computed as follows:*

$$\text{BoT rate to TMRC} = \text{Treasury bill rate} + \text{Risk Premium} + \text{Maturity Premium}$$

$$\text{TMRC rate to member banks} = \text{BoT rate} + \text{TMRC margin}$$

The situation of labour market and income levels is discussed in sub-section 3.2.3.3. A majority of Tanzanian cannot afford to borrow at the prevailing interest rates. With the existing interest rates, it is clear that, the real estate industry would not achieve any significant growth. This finding concurs with Kironde et al. (2003)⁵¹⁷ who note that, if the income levels remain low and interest rates high, it will be difficult for investors to be lured into housing finance. The research carried out by FinScope Tanzania in 2009, shows that mortgage finance affordability is still a challenge in the country. The results of the study are as summarised in Figure 23.

Figure 23: Income Pyramid and Access to Finance



⁵¹⁷ See Kironde et al. (2003), p. 72

- * *Adult population (16 years and older) equal to 21 million in 2006*
- ** *Estimate from Finscope 2006*
- *** *Includes some of those in the "uncertain"/"Don't know" category*

As it can be seen in Figure 23, 54% of all Tanzanian adults earn less than TZS 50,000 per month. However, some households were likely to have other sources of income (obtained from other business undertaking) apart from formal personal income. With reference to the typical mortgage arrangement as provided in Table 26 of the present work, (the two banks which offer long-term mortgage finance) and the Income Pyramid in Figure 23, only about 3% of the entire population, is likely to afford mortgage loans. Another 22% of the population has monthly incomes of between TZS 51,000 and 200,000 which qualifies them for housing microfinance as there are no pre-built houses in the market for this income range; and it is unlikely that those with monthly incomes below TZS 50,000 could afford housing loans of whatever kind if only current income was taken into account. In total, only 11% of the population can access mortgage finance either from financial institutions or micro-loans from micro finance institutions (MFI).

Further detailed analysis of FINMARK TRUST report by CAHF (2011)⁵¹⁸ shows that, mortgage financing institutions offer loan terms that range from 5-20 years, with an interest rate of between 18–21%. For instance, Azania Bank requires a deposit of three installment payments, a savings account with the bank, and a title deed with a remaining leasehold term of not less than 12 years. To qualify for a typical mortgage product, Commercial Bank of Africa (CBA) requires a salary of TZS 800,000 a month. The average mortgage size at CBA is between TZS 50 million–TZS 350 million, and so most clients are high-income earners.

4.4.3.4 Corruption and Bureaucracy

Tanzania performs better than other low-income countries in most measures related to governance (i.e. accountability, political stability, government effectiveness, the rule of law, and regulatory quality), but not in corruption.⁵¹⁹ Corruption and bureaucracy were ranked 4th as barriers for the growth of real estate sector. It should be noted that,

⁵¹⁸ See CAHF (2011), p. 102; also see FIMARK TRUST (2010), p. 23-24.

⁵¹⁹ See Almeida et al. (2004), p. 10 and p. 89.

respondents mentioned corruption and bureaucracy in response to the question on “*barriers for real estate development*.” However, the respondents were also asked two separate questions, first, to give their opinion on whether they considered corruption to be a serious problem in the land sector, and second, to identify the activities which are highly affected with corruption practices. 62% of local developers and 83% of foreign developers considered corruption to be a serious problem. The other three (14%) local developers said that they did not consider corruption to be a serious problem. One of them⁵²⁰ maintained that, “there is no room for corruption if the developer knows his rights. In addition to that, many local government offices use computerised systems which minimise room for corruption.” The other one⁵²¹ argued that, “although it is a common complaint, my organisation has not so far faced it in its real estate development activities.” The last one was a foreign developer⁵²² who did not consider corruption to be a serious problem. He pointed out that the project which his company was undertaking was the first one and they had not faced such a problem.

However, observations show further that, although foreign and local real estate developers concurred on the existence of corruption and bureaucracy in real estate activities, they slightly differed with the way they perceived its existence. About 83% foreign real estate developers who considered corruption to be a serious problem, were of the opinion that, corruption and bureaucracy had been problems in many developing countries and Tanzania is no exception. The respondents’ observation concurs with Keith (2010)⁵²³ who notes that, corruption is a fact of life in many countries; however, it is more manageable in Tanzania than in many countries and in practice a straightforward business approach and refusal to be involved will be accepted. Also findings of Transparency International show that corruption in Tanzania is high, but not as bad as in many Sub-Saharan African countries.⁵²⁴ Those who regarded corruption to be a serious problem were further asked to describe the forms of corruption in land sector. The perceptions of respondents on the most corrupt areas in the land sector are as presented in Table 24.

⁵²⁰ See Local Real Estate Developer 1 (17.08.2011), Interview.

⁵²¹ See Local Real Estate Developer 13 (06.10.2011), Interview.

⁵²² See Foreign Real Estate Developer 2 (21.10.2011), Interview.

⁵²³ See Keith (2010), p. 28.

⁵²⁴ See World Bank (2009), p. 27.

Table 24: Activities Highly Affected by Corruption Practices

Area affected with corruption	No. of frequency of mentioning
Land acquisition	12
Approval of documentations	11
Getting building permit ⁵²⁵	10
Land conflict resolution in courts	7
Land development control	5
Transfer of ownership	3
Land surveying	3
Getting exemption from TIC	1

Source: Own Illustration.

As shown in Table 24, land acquisition was listed as the most vulnerable area which attracted corruption practices. Approval of documentation, getting building permit and land conflict resolution were listed as 2nd, 3rd and 4th respectively with control of land development also being regarded as an area prone to corruption.

Corruption and bureaucracy in the land sector in Tanzania have already received considerable attention in the existing literature. Mbele (2009)⁵²⁶ for instance notes that corruption in the real estate industry in Tanzania hinders the growth of the industry. His findings concur with those of Makwarimba and Ngowi (2012); and Lugoe (2007b). While Makwarimba and Ngowi (2012)⁵²⁷ observe that getting land from the government is very bureaucratic as it takes long and may have elements of corruption; Lugoe (2007b)⁵²⁸ notes that, corruption is widespread in land delivery and in control of land development. NORAD (2011)⁵²⁹ also notes that, land officials solicit bribes for allocating land plots, which has led to the emergence of an informal land sector, which in Dar es Salaam alone is estimated to account for at least 19,000 plots a year. Kusiluka (2012)⁵³⁰ similarly observes that, the formal process of acquiring land in Tanzania is still time consuming, highly bureaucratic and sometimes attracts corruption. Amongst others, bureaucracy (lengthy procedures) in land acquisition and getting permits, and the absence of infrastructure has resulted into existence of undeveloped plots and slow pace of property development even in surveyed areas in

⁵²⁵ Here some developers revealed that, sometime they have to pay for the local authorities meetings that consider their application for building permits. This act to a large extent interferes with objectivity.

⁵²⁶ See Mbele (2009), p. 25.

⁵²⁷ See Makwarimba/Ngowi (2012), p. 68.

⁵²⁸ See Lugoe (2007b), p. 5.

⁵²⁹ See NORAD (2011), p. 114.

⁵³⁰ See Kusiluka (2012), p. 122.

Dar es Salaam.⁵³¹ Kironde (2009)⁵³² notes that the prevalence of bureaucratic procedures in obtaining permits have resulted into informality and non-compliance to the development conditions.

However, it should be noted that, solid determination to fight corruption is not only a problem for leaders and bureaucratic reformers; the private sector, too, may lack the will to overcome corrupt systems.⁵³³ The observation by Kpundeh (1998) is relevant to many developing countries including Tanzania. This is due to the fact that, there are people who intensify corrupt practices. For instance, one respondent⁵³⁴ was of the opinion that there was no problem to giving bribes to the local authorities officials in order to get one's work done. This respondent maintained that, the amount asked by those officials was just minimal. Amongst four land officers interviewed from three municipalities in Dar es-salaam, one⁵³⁵ agreed that, there were some unfaithful officials who asked for money so as to offer their service. Mbele (2009)⁵³⁶ also reported that sometimes land officers demanded to be given some money so as to authorise official documents. The same was also observed by Kusiluka (2012)⁵³⁷ that some government officials were unfaithful, bureaucratic and corrupt. Almeida et al. (2004)⁵³⁸ also show that, enterprise managers are involved in grand and petty corruptions in Tanzania. According to the authors, the interviewed managers revealed that, informal payments were typically needed for the survival of their firms. Interview with the other three land officers⁵³⁹ who disagreed on the existence of corruption in the land sector, revealed that the bureaucratic procedures in the sector was the one which made people suspicious.

One respondent⁵⁴⁰ pointed out that some decisions for constructing and acquiring some buildings by government institutions and pension funds in Tanzania were made by corrupt motives. The respondent mentioned two controversial scenarios, the first one involved construction of Bank of Tanzania (i.e. BoT Twin Towers), and the other

⁵³¹ See Mwiga (2011), p. 65.

⁵³² See Kironde (2009), p. 19.

⁵³³ See Kpundeh (1998), p. 92.

⁵³⁴ See Local Real Estate Developer 11 (13.10.2011), Interview.

⁵³⁵ See Land Officer 1 (25.10.2011), Interview.

⁵³⁶ See Mbele (2009), p. 58.

⁵³⁷ See Kusiluka (2012), p. 184.

⁵³⁸ See Almeida et al. (2004), p. 64.

⁵³⁹ See Land Officer 2 (19.10.2011), Interview with two land officers; also see Land Officer 3 (12.04.2012), Interview.

⁵⁴⁰ See Local Real Estate Developer 14 (10.10.2011), Interview.

was on pension funds' acquisition of large buildings (i.e. Hifadhi-EPZ Warehouses and Quality plaza) owned by Quality group. It is worth noting that, the construction project of BoT Twin Towers and acquisition of the mentioned buildings had previously attracted the interest of the local media; (see for instance *the African* 10th April 20006; *the Citizen* 3rd April 2006 for Quality group and Pension funds real estate selling deals), and *Thisday* 25th May 2010a; *the Citizen*, 16th March 2011; *the Guardian*, 5th May 2012a (for BoT Twin Towers). More details of the mentioned buildings are as provided in Box 1.1.

Box 1.1: Controversial BoT Project construction and Pension Funds building acquisition from Quality Group Ltd.

BoT Twin Towers:

Construction costs of the Bank of Tanzania's (BoT) Twin Towers headquarters in Dar es Salaam project has generated considerable controversy. The main office of the BoT was extended by erecting twin towers; an original project cost of US \$ 80 million. The cost was then suspiciously inflated to US \$340 million. This amount means the construction cost of the Twin Towers headquarters building is about US \$8,628 per square meter, four times more than the cost of building a similar building in some of the world's most expensive cities like London, New York, or Tokyo. The contract was inflated without the approval of the Board of Directors of the BoT, caused the government of the United Republic of Tanzania to suffer a pecuniary loss of US \$ 153,770,715. The building's construction cost is the subject of an ongoing graft investigation by the Prevention and Combating of Corruption Bureau (PCCB), which has already led to the prosecution of a senior ex-BoT official. The central bank's Board of Directors has ordered a "value for money" audit of the Twin Towers to establish exactly why the project costs went sky high.

Source: The Construction Sector Transparency Initiative's (CoST's) (2009), p. 20; *Thisday* 25th May (2010a); *The Citizen*, 16th March (2011b).

Quality Group Ltd Real Estate selling deal to the Pension Funds:

In 2005, NSSF and PSPF were alleged by the media to have controversially acquired some investment properties from Quality Group Ltd⁵⁴¹. The buildings known as *Hifadhi-EPZ* Warehouses were acquired by NSSF for a total of US \$ 47.0 million from Quality Group Ltd. Another building called *Quality Plaza* was acquired by PSPF also from Quality Group Ltd. for a total of US \$ 36 million. The main allegation behind the acquisitions was that the value of the properties was grossly overstated compared to their construction cost.

Source: Mpogole (2006), p. 31-32; Kusiluka (2012), p. 172 and p. 180.

⁵⁴¹ Quality Group Ltd is a private company incorporated in Tanzania which among other activities develops properties; see Mpogole (2006), p. 31-32.

However, the government has been increasing efforts to address corruption in the land sector. For instance, the establishment of Prevention and Combating of Corruption Bureau (PCCB) is one of the positive moves in fighting corruption. Also Anti-corruption Action Plan (2001-2002) was prepared to guide the fight against “the use of public office for private gain.” It consisted of four action areas, namely: (i) to deliver 20,000 new urban plots within a 14 month period in various cities and regional towns of Tanzania (ii) to review and harmonise existing laws and regulation on land use that seemed to be in conflict (iii) to raise awareness and skills whilst providing needed data and information in the delivery of services (iv) to ensure adherence to procurement regulations and professional ethics among land sector’s staff.⁵⁴² Also the establishment of Tanzania Land Portal by Action Aid to report on land issues in Tanzania and make follow ups is a good initiative that will make it more possible for the country to benefit from its land resources. Despite government efforts, progress in combating corruption in the past five years has been slow. In fact, Tanzania’s score and ranking deteriorated in the most recent survey by Transparency International.⁵⁴³ Broader strategies for addressing corruption in the land sector, and in real estate investment and development activities are needed.

4.4.3.5 Lack of Surveyed and Serviced Land

This was ranked a 5th barrier for the growth of real estate development and investment sector. In most cases, surveyed land cannot be obtained on demand and also a great portion of the country’s land lack basic service or infrastructure. The respondents commented on the 20, 000 plots project which were issued by the local authorities in Dar es Salaam between 2002 and 2006 that the plots were provided without consideration of provision of services and infrastructure in such neighbourhoods. This discouraged many developers to put on structures to such neighbourhoods. As a result, development has hardly begun in those neighbourhoods. The findings by FINMARK TRUST (2010) and Mwiga (2011),⁵⁴⁴ for instance, reveals that, property development in those neighbourhoods has been slow amongst others due to the fact that, the sites have no infrastructure, and also the sites are remote from the centre of Dar es Salaam, and have poor transport links.

⁵⁴² See Lugoe (2007a), p. 6.

⁵⁴³ See Almeida et al. (2004), p. 89-90.

⁵⁴⁴ See FINMARK TRUST (2010), p. 15; see also Mwiga (2011), p. 56 and p. 65.

Provision of surveyed plots in a neighbourhood which lacks basic services also contributes further to the proliferation of unplanned settlements in most of the major urban areas in Tanzania. Considering the fact that, basic services are lacking, land owners in surveyed areas decide to acquire plots and carry out development in unsurveyed areas where basic services are at least available. It should however be noted that, despite a number of problems on the quality of land and its accessibility, Dar es salaam is still regarded as a primate city, endowed with the best services of any urban centres in Tanzania.⁵⁴⁵

Although respondents placed little weight on the failure of land delivery system, a number of mentioned barriers in the land sector are caused by the failure of the land delivery system. These include lack of surveyed and serviced land, land conflicts, and poor planning. As pointed out by one respondent,⁵⁴⁶ due to failure of the land delivery system, some developers tend to locate their properties at the periphery because obtaining land in unsurveyed areas is easy compared to the formal land delivery system. This tendency has led to the haphazard real estate development in the city and patches of land development in the urban area.

4.4.3.6 Lack of Transparency

Schulte et al. (2005)⁵⁴⁷ argue that, a sound overview of the market and hence market transparency is a general prerequisite for successful investment in real estate. The authors provide further that, only transparent markets can create confidence and be attractive to professional investors. Yazdanifard et al. (2011)⁵⁴⁸ note that, although real estate industry contributes immensely to countries revenue, due to lack of transparency, the industry is flawed by a lot of unethical practices, that made implementation of its trade difficult. Lack of transparency was ranked 6th overall for barriers for real estate activities in this study. Among other reasons, low transparency in the real estate industry is attributed to lack of public data. There is no public data on land and real estate activities, which creates difficulty to accurately grasp key information (such as information on available vacant plots, their status, ownership and values, compensation, trend of growth, return, supply, demand, sale prices, tax

⁵⁴⁵ See Lugoe (2007a), p. 7.

⁵⁴⁶ See Real Estate Professional 8 (28.02.2012), Interview.

⁵⁴⁷ See Schulte et al. (2005), p. 90.

⁵⁴⁸ See Yazdanifard et al. (2011), p. 1.

assessment evaluation, average length of time to sell properties etc.) in the Tanzanian real estate market at present. Deficient information on the housing sector has been cited as one of the major impediments against growth and limited contribution of the housing sub-sector into the national economy.⁵⁴⁹ As a result of that, investment and development decisions are made based on considerable number of assumptions.

4.4.3.7 Hike of Prices of Construction Materials

The high cost of construction is due to importation of construction material and limited supply of building construction material from local industries.⁵⁵⁰ Hiking prices of construction materials was ranked 8th barrier for the growth of real estate development activities. To express the seriousness of the problem, one respondent⁵⁵¹ had this to say:

I think the hike of the prices of construction materials has been one of the major impediments in realising high growth of the industry. This can be a result of taxes imposed on the construction materials by the government (both imported and local) or scarcity/insufficiency of locally produced materials. The respondent argued further that, I think the government should consider reducing the taxes associated with importation and production of construction materials. Also there is a need to adopt new technologies that can reduce the costs and increase production.

The hiking of prices of construction materials in Tanzania was also widely covered by a number of local media. The media provide that, among the reasons which increase cost of construction are depreciation of the local currency, inflation, chronic electricity shortage and hike of power tariffs.⁵⁵²

Like many developing countries, most of the modern buildings in Tanzania have been using a great deal of imported material, some of which are not even environmentally friendly. To a large extent, imported building materials are widely used in developing countries due to inadequate supply of local materials and to some extent due to low

⁵⁴⁹ See Daily News, 21st March (2011d).

⁵⁵⁰ See Roy (2011), p. 11.

⁵⁵¹ See Real Estate Professional 7 (26.02.2012), Interview.

⁵⁵² See Business Times, 8th October (2010); Business Times, 2nd February (2012); Daily News, 7th February (2012a); also see Daily News, 29th May (2012b).

quality of local materials. For instance, UN-HABITAT (1991)⁵⁵³ notes that, the contributing factor to the reliance of imported construction materials include inability of building material industries in developing countries to have access to technologies that could exploit the natural resources endowments to increase the supply of building materials required by the construction sector.

However, high reliance on imported building materials has raised so much concern for many developing countries especially in Africa. Describing the situation in Nigeria, Oruwari et al. (2002)⁵⁵⁴ for instance note that, increased dependence on imported materials puts pressure on prices which not only fuelled inflation in the construction sector but also causing cost over-runs in public projects. In addition to that, Ayedun and Oluwatobi (2011); Nnanna (2010); Oladipo and Oni (2012)⁵⁵⁵ note that, dependency on imported building materials increases the overall cost of construction in Nigeria. The cost of building construction in Tanzania is high. One of the major reasons for this is that all basic raw materials for construction in the country are imported.⁵⁵⁶ For instance, prices of some basic building materials in Tanzania between 1982 and 1989 (i.e. cement and steel) increased more than fivefold, substantially more than the increase in the cost of living index.⁵⁵⁷ CRB (2011)⁵⁵⁸ also notes that, some of imported construction materials in Tanzania do not conform to the standards as specified by the Tanzania Bureau of Standards (TBS) and/or to any other internationally accepted standards.

4.4.3.8 Inflated Land and Property Prices

It was also revealed that, many people in Tanzania own land for speculative purposes. These land owners gave prices above the market rates when approached by developers and investors. The land owners managed to benefit out of such practices due to lack of land bank and due to the government's ineffectiveness in implementing its regulations. With the establishment of land bank, land hoarding and speculation will most likely decrease over time. Existence of land bank will provide developers and investors easy access to land at reasonable prices. Lack of a land bank and the

⁵⁵³ See UN-HABITAT (1991), p. 5.

⁵⁵⁴ See Oruwari et al. (2002), p. 6.

⁵⁵⁵ See Ayedun and Oluwatobi (2011), p. 3; Nnanna (2010), p. 17; also see Oladipo/Oni (2012), p. 132.

⁵⁵⁶ See World Bank (2010a), p. 39.

⁵⁵⁷ See UN-HABITAT (1993), Figure 3.

⁵⁵⁸ See CRB (2011), p. 25.

current high land prices are great hindrances to real estate investors and developers. Inflated land and property prices scored 9th position in the ranking. A number of respondents were of the opinion that, prices for land and properties started being inflated after the Land Act No. 4 of 1999 expressly provided that land had value. These respondents expressed their fear that, unless the government intervenes by ensuring strict implementation of land laws, the situation might worsen in future.

4.4.3.9 Limited Skilled Manpower

The position in factors of production such as skilled labour is one of the determinants of industry's competitiveness.⁵⁵⁹ Limited skill in the real estate sector was also mentioned to be a barrier for the growth of the sector. The respondents were also asked to provide their opinion on the level of expertise in the real estate industry. Analysis of interviews show that 29% of the interviewees amongst local and foreign real estate developers acknowledged that there was lack of expertise in the real estate sector which was caused by the infancy of the country's real estate market. Cognizant of the infancy of the Tanzania real estate market, these interviewees seemed not to have much expectation, as they considered the level of expertise just enough. Out of those, (10%)⁵⁶⁰ were foreign developers. Other interviewees (71%) amongst local and foreign developers had different views on the level of expertise in the country. 5% of foreign developers⁵⁶¹ were of the opinion that, the level of expertise was not enough but would probably improve with the coming of more foreign developers. One foreign and one local developer (10%) considered the level of expertise to be satisfactory.⁵⁶² 31% of real estate developers regarded the level not to be enough. 20% of real estate developers were of the opinion that there are few professionals and its role is not well acknowledged by many developers, 5% of real estate developers considered the level of expertise to be high.⁵⁶³ Figure 24 presents the response of interviewees on the level of expertise in the real estate industry.

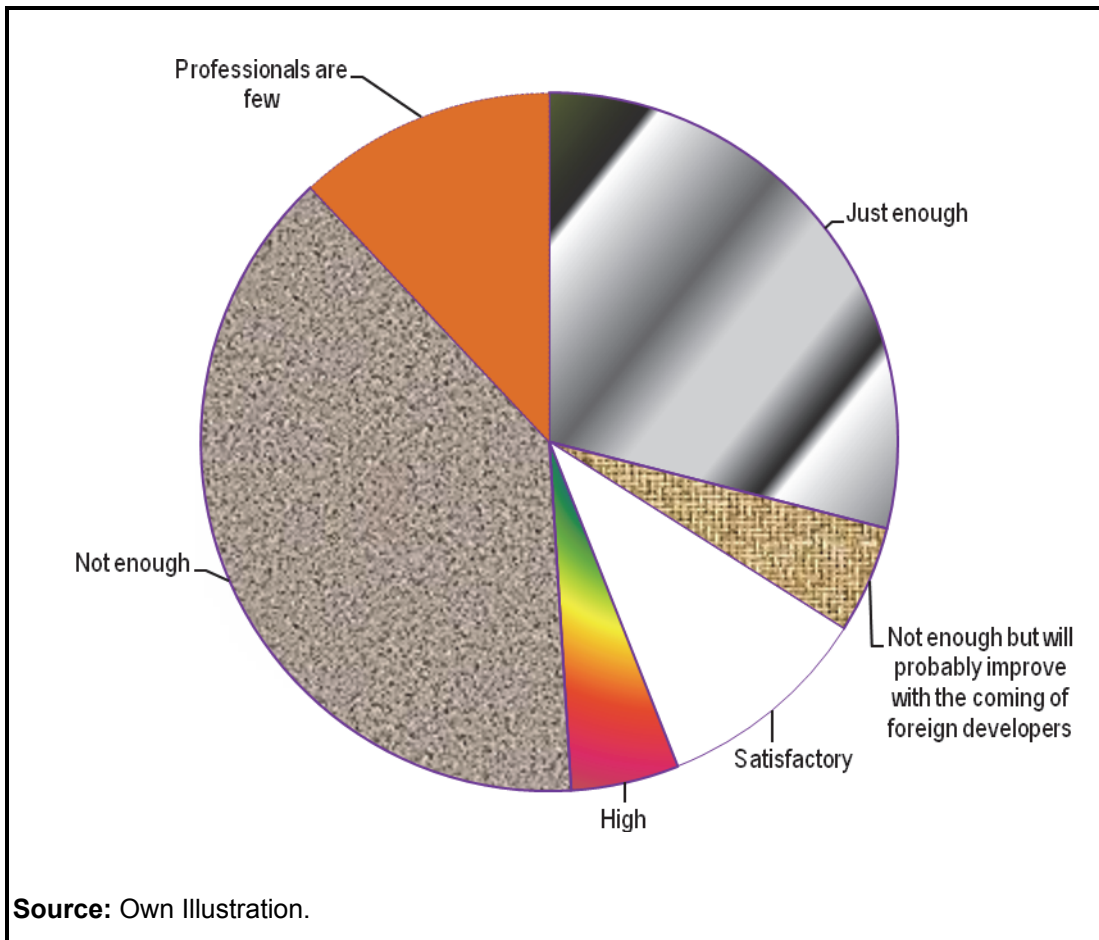
⁵⁵⁹ See Porter (1998), p. 71.

⁵⁶⁰ See Foreign Real Estate Developer 1 (18.10.2011), Interview; Foreign Real Estate Developer 3 (26.10.2011), Interview.

⁵⁶¹ See Foreign Real Estate Developer 2 (21.10.2011), Interview.

⁵⁶² See Foreign Real Estate Developer 5 (16.11.2011), Interview; Local Real Estate Developer 9 (24.10.2011), Interview.

⁵⁶³ See Local Real Estate Developer 12 (25.10.2011), Interview.

Figure 24: Level of Expertise in the Real Estate Industry

The findings from Figure 24 seem to suggest that, generally more than 50% of the respondents considered the level of expertise not to be enough. This somehow concurs with the finding by Viitanen (2002)⁵⁶⁴ who observes inadequate skills in real property profession in the developing countries and countries in transition. Also, Bardhan and Kroll (2007)⁵⁶⁵ observe lack of professionalisation in the real estate sector in the developing world and emerging economies.

4.4.3.10 Marginalisation of Professionals

Most of the real estate professionals revealed that, they were not involved in the initial stages of real property development decision making. They were mostly engaged after the completion of buildings as property managers. Concerning marginalisation of

⁵⁶⁴ See Viitanen (2002), p. 2.

⁵⁶⁵ See Bardhan/Kroll (2007), p. 20.

professionals, Kusiluka (2012)⁵⁶⁶ explains a scenario where some pension funds' top managements did not consult in-house real estate specialists when making key decisions or sometimes ignoring their professional advice. Also Kongela and Kusiluka (2009b)⁵⁶⁷ note that, despite being the people who deal with day-to-day complaints and problems of ill-designed buildings, property managers were not adequately involved in the building design. Furthermore, apart from their marginal role during the design stage, their involvement during the building construction stage was also minimal.

As seen in Figure 22, other items such as lack of clarity in property rights, poor planning, land conflict and multiple taxes were ranked low. However, practically all of them create obstacles in one way or another in real estate activities in the country. Regarding *poor planning*, UN-HABITAT (2009)⁵⁶⁸ for instance notes that, planning in Dar es Salaam has been taking place in a vacuum without following set plans and regulations. Such a situation causes spatial disorder in the city as there is lack of space for business activity, poor transportation infrastructure, inadequate water and sanitation facilities, and congestion. With regard to *property rights*, Payne (1996)⁵⁶⁹ maintains that, access to property rights can exert a significant influence over land use and land values.

4.5 Effectiveness of Different Institutions Dealing with Real Estate Activities

Respondents were required to comment on various institutions in terms of their effectiveness in creating friendly real estate environment. The respondents provided their views as to the effectiveness of financial sector, government agencies and offices dealing with land issues and investment promotion, and other institutions such as courts and other conflict resolution institutions, tax department, financial institutions, immigration offices, land offices, and government ministries. The results are as summarised in Figure 25.

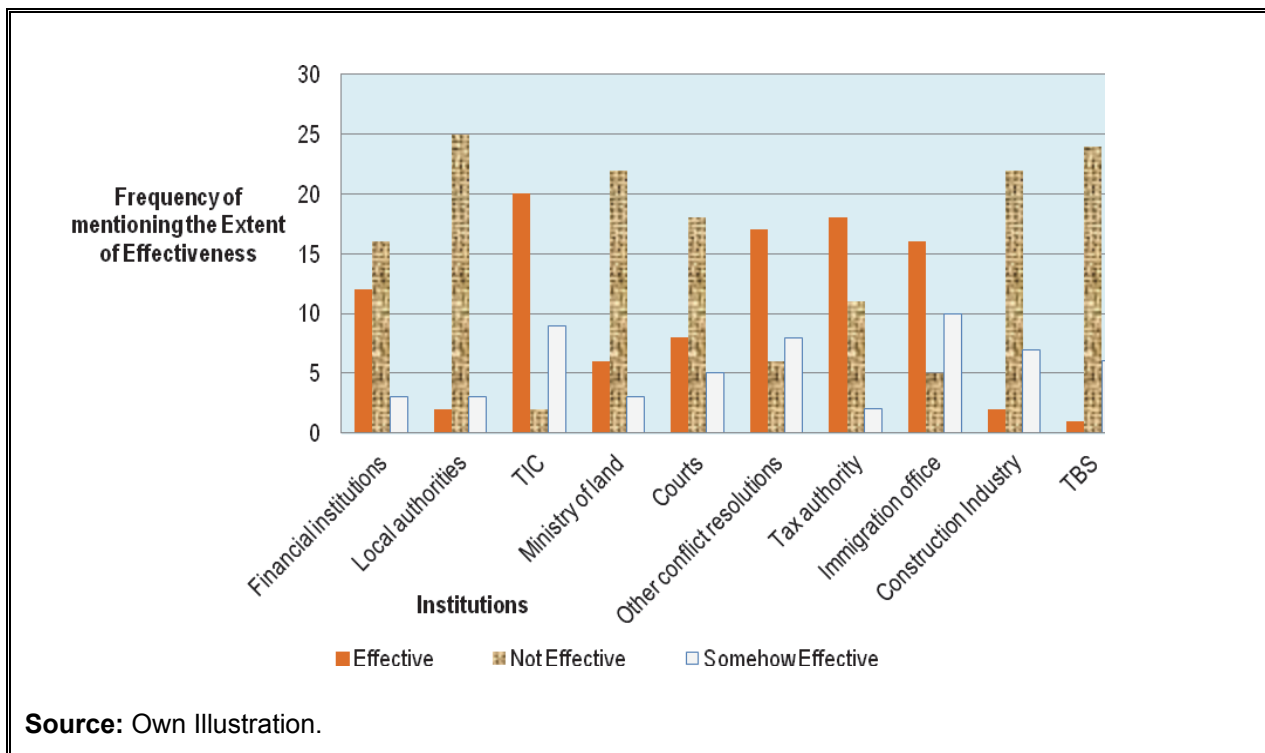
⁵⁶⁶ See Kusiluka (2012), p. 150.

⁵⁶⁷ See Kongela/Kusiluka (2009b), p. 8.

⁵⁶⁸ See UN-HABITAT (2009), p. 9.

⁵⁶⁹ See Payne (1996), p. 27.

Figure 25: Effectiveness of Different Institutions Dealing with Real Estate Activities



4.5.1 Effectiveness of Financial Sector

As already seen previously, Tanzania's financial sector is relatively young. Only a few banks have been issuing mortgage loans so far. Azania Bank and the CBA are some of the main mortgage lenders. The typical mortgage arrangement provided by the two banks is as provided in Table 26. The financial institutions were ranked 6th amongst ineffective institutions in supporting the growth of real estate sector.

However, it was interesting to note that, a number of real estate developers generally regarded the sector to be effective. However, these respondents had put it clear that, the sector was effective only for large real estate developers. About 60% of local developers and 67% of foreign developers were of the opinion that, the financial sector was effective in supporting large real estate developers. This was also the opinion of officials from pension funds and institutional developers who did not use borrowed money for their project development. This observation somehow concurs with Rothenberger (2010)⁵⁷⁰ who notes that, solvent foreign real estate investors enjoy a

⁵⁷⁰ See Rothenberger (2010), p. 99.

good reputation and have allegedly experienced easier access to credit than local private investors both at local banks as well as the International Finance Corporation (IFC). However, the author reveals that, at least 60% of foreigner's total capital invested in Tanzanian real estate assets consists of equity.

Local and foreign real estate developers were asked to describe sources of finance for their development projects. Apart from 25% of private local developers who insisted on having completely used equity finance, all pension funds and institutional developers used 100% equity finance. However, the study noted that except for pension funds, one large institutional developer (i.e. NHC) had started using bank loans to finance large scale projects. Financing arrangements used by the real estate developers covered in this study is as presented in Table 25.

Table 25: Real Estate Developers Financing Arrangements

Financing arrangement	No. of frequency of mentioning
Bank loan and equity	7
Equity only	9
Equity, foreign loan and local bank loan	3
Informal borrowing (from business friends)	1
Issuing share (IPO)	1
TOTAL	21

Source: Own Illustration.

As observed in this report (Table 25), and previously reported by Rothenberger (2012),⁵⁷¹ with the existing financing situation, one should think of high equity ratios when investing in real estate in Tanzania. Three of the real estate developers who used bank loans describe the borrowing arrangement as follows:

- Local Real Estate Developer 2: Borrowed from CRDB Bank at 15% interest rate for 5 years
- Local Real Estate Developer 8: Borrowed from LAPF and CBA at 13% interest rate for 10 years
- Foreign Real Estate Developer 1: Borrowed from Exim Bank and International Commercial Bank at 16% interest rate for 7 years

⁵⁷¹ See Rothenberger (2010), p. 99.

It should also be noted that, CBA real estate loans have so far mainly been confined to Dar es Salaam although there are plans to venture into secondary towns such as Arusha, Mwanza and Mbeya.⁵⁷²

Table 26: Azania Bank and CBA Mortgage Lending Overview

Name of Bank	Loan term and size ⁵⁷³	Interest rate and fees	Qualification criteria ⁵⁷⁴	Loan Issued
Azania Bank ⁵⁷⁵	<ul style="list-style-type: none"> •Minimum loan size: TZS 5million •Average loan size: TZS 200 million •Loan term: 15 years •Minimum monthly repayment: TZS 80,521 •Minimum deposit: 20% of loan amount 	<ul style="list-style-type: none"> •Interest rate: 18% p.a.(fixed rate) •3% for loan arrangement fee, loan administration fee and loan registration fee •Repayments: Not necessarily monthly (but income must be "regular, reliable, sustainable and sufficient to service the loan") •The bank does not provide a mortgage for properties located in unsurveyed areas 	<p><u>Borrower:</u></p> <ul style="list-style-type: none"> •Max repayments may not exceed two thirds of income (67%) •Proof of income, voters card, good credit history, minimum age: 18, maximum: age 60, insurance <p><u>House:</u></p> <ul style="list-style-type: none"> •Title Deed/leasehold, building permit, architectural drawings, Bills of Quantity, Valuation report, sale agreement, spouse consent. •No specification for sanitation/building materials •No loan for vacant land 	<ul style="list-style-type: none"> •Number of borrower as at 31st October 2011: 576 •Total amount issued as at 31st October 2011: Appx. TZS 24,170 billion •No loan has so far been issued to foreigners
CBA ⁵⁷⁶	<ul style="list-style-type: none"> •Loans size: TZS 20-350 million •Maximum loan term: 20 years (individual) and 7 years (corporate) •Minimum deposit: 10% of loan amount 	<ul style="list-style-type: none"> •Interest rate: 19% p.a.(on a reducing balance basis) •Loan closing costs are 3% of the loan amount, consisting of an arrangement fee, legal costs, stamp duty and mortgage registration fees 	<p><u>Borrower:</u></p> <ul style="list-style-type: none"> •Minimum salary of TZS 800,000 per month •Max repayments may not exceed 45% of income •Proof of income, identity card/passport, good credit history, minimum age: 21, maximum: age 60, insurance <p><u>House:</u></p> <ul style="list-style-type: none"> •Bills of Quantity •Duly signed sale agreement 	<ul style="list-style-type: none"> •Number of borrower as at 31st October 2011: more than 200 individual borrowers •Many corporate loans applicants are foreigners⁵⁷⁷. •Total amount issued as at 31st December 2009 Appx. TZS 7.5 billion

Source: Interviews with Bank Officials; Illana (2011), p. 6: FIMARK TRUST (2010), p. 23-24.

Interviewees amongst financial institutions were asked whether their institutions had in-house real estate experts to evaluate the viability of real estate projects for which loans are applied. Only two banks⁵⁷⁸ had in-house real estate experts. Other six banks had no in-house real estate experts. One bank⁵⁷⁹ which did not have in-house real estate experts maintained that, the bank did not offer development/construction loans, so it

⁵⁷² See FINMARK TRUST (2010), p. 23.

⁵⁷³ For trend of Tanzanian Shilling against US \$, refer to Table 5 of the present work.

⁵⁷⁴ Qualification requirements for a company/corporation amongst other things include submission of Memorandum and Articles of Association, Board of Directors resolution to borrow, Directors guarantee, audited accounts for the past 3 years, and cash flow projections.

⁵⁷⁵ Azania Bank started to issue mortgage from 2002. The bank offers loans for house purchase and house construction.

⁵⁷⁶ CBA started to offer housing loan in 2007. It offers loan for housing purchase and renovation, no construction loans are offered so far.

⁵⁷⁷ The figure could not be obtained.

⁵⁷⁸ See Official from Bank A (05.09.2011), Interview; Official from Bank G (03.10.2011), Interview

⁵⁷⁹ See Official from Bank B (28.09.2011), Interview.

was not necessary to have in-house real estate experts. Table 27 shows the typical practice for real estate loan evaluation used by banks covered in this study. The Table also shows the level of real estate expertise in banks and number of real estate loan applications.

Table 27: Level of Expertise in Real Estate Loan Evaluation and the Number of Loan Applicants

Name of Bank	In-house Real Estate Experts	Loan Applicants
Bank A	2 real estate graduates	576 applicants since 2002. No loan issued to foreigners so far
Bank B	No in-house expert, bank officials do evaluation	About 50 applicants (between 2009-2011). No loan issued to foreigners so far
Bank C	No in-house expert, property reports are used to guide lending decision	For the past 3 years, there were about 20 corporate borrowers (all were either foreigners or under joint venture arrangement) and at least 2 applications on average in a month for individual borrowers
Bank D	No in-house expert, assessment is based on borrowers books of accounts	More than 200 applicants since 2007. Many corporate mortgage borrowers are foreigners
Bank E	No in-house expert, assessment is done by credit analysts	The bank started just recently to issue housing loans
Bank F	No in-house expert, bank officials do evaluation	The bank has just started (in 2011) to issue mortgage, there is nothing tangible at present. However many applicants are in joint venture
Bank G	1 real estate graduate	The figure was not available, however no loan issued to foreigners so far
Bank H	No in-house expert, the application is sent to the shareholders who use their experts to do appraisal	Up to 2011, there were about 25 applicants. More than half were foreigners mostly under joint venture

Source: Own Illustration.

It is clear from Table 27 that 75% of financial institutions whose officials were interviewed in this study did not acknowledge the role of real estate experts. Some of banks engaged valuers to undertake property valuation, while others engaged quantity surveyors for preparing Bill of Quantity (BoQ). It should however be noted that, knowing the market price and analysing the BoQ for the properties which mortgages are applied was not enough. Major obstacles for analysing real estate markets appear to be the availability of data especially in emerging markets;⁵⁸⁰ financial institutions need to go further to know key aspects which would otherwise affect the mortgaged properties in future. Real estate has a number of specific characteristics which are too difficult for the bank officials alone to undertake thorough analysis without involving real estate experts. Real estate experts are not only needed to evaluate the viability of real estate projects for which loans are applied but also to analyse and forecast future

⁵⁸⁰ See Hilbers et al. (2001), p. 8.

trends of property assets regarding rent and price movement, property demand and supply, vacancies, discount rates, anticipated inflation and change in buyers and tenant's tastes and preferences. Real estate experts are also best placed to spot inflated property values or prices presented in the valuation reports or BoQ.

Owing to the infancy of the financial sector, the absence of credit reference bureaus, inadequate data and weak analysis of real estate risk, financial institutions are highly vulnerable to property price change. Literature shows that, there are close connections between real estate prices and bank credit. Booms and busts in real estate prices have important implications for financial stability.⁵⁸¹ Fluctuations in real estate prices, in particular falling property prices, may lead the banking sector into distress.⁵⁸²

Property markets and real estate prices are inherently subject to booms and busts which are brought about by construction lags. If a surge in demand pushes the price of existing property above its replacement cost, then developers have an incentive to build more properties. But new properties may take years to complete, and until the new supply is forthcoming, market-clearing prices will remain high. In the presence of construction lags, price increases efficiently reflect the current scarcity of property services. Nonetheless, this increase in market-clearing prices will tend to be followed by a drop once the new supply is forthcoming.⁵⁸³ The authors provide further that, this cyclicity in asset values means that lending at any given loan-to-value (LTV) ratio during the price boom (i.e. when the demand for construction financing is strongest) may well produce a portfolio of loans with higher than anticipated LTVs when asset values drop after supply responds.

The findings from the above studies could prove useful to the financial institutions in Tanzania. This is due to the fact that, at present the prices of properties are high, but with the coming of more properties in the market (a good number is on the pipeline), the prices will probably drop. The situation is more likely to affect mortgage servicing. One of the officials from financial institutions⁵⁸⁴ raised the concern that many owners of the 'executive residential properties' which were occupied by expatriates had

⁵⁸¹ See Haibin (2005), p. 18.

⁵⁸² See Case/Wachter (2005), p. 209; also see Haibin (2005), p. 16.

⁵⁸³ See Case/Wachter (2005), p. 198; Hilbers et al. (2001), p. 7; also see Hilbers (2005), p. 229-230.

⁵⁸⁴ See Official from Bank G (03.10.2011), Interview.

encountered shocks after many of the expatriates left the country during the economic crisis. The bank officer pointed out further that, a number of such property owners who had borrowed from his bank had experienced difficulties in servicing their loans.

4.5.1.1 Efficiency of Legal and Land Laws in Real Estate Lending

Effective real estate finance is subjected to a wide range of legal and regulatory enactments governing the lending and enforcement actions against mortgagors in default. Laws, policies and regulations can be either incentives or disincentives to real estate lending and borrowing. Interviewees amongst financial institutions were asked to describe how supportive or discouraging were the existing laws, policies and regulations related to real estate.

About 80% of respondents considered the laws to be supportive. Although many respondents agreed that laws were supportive, it was noted that almost all of them were generally dissatisfied with the implementation of the said laws. For instance, the respondents described that although foreclosure was allowed by law, its implementation was still a challenge. That is due to the fact that, mortgagors were still highly protected by law and enforcement of foreclosure took too long. This observation was also noted by Rothenberger (2010); Rabenhorst and Butler (2007)⁵⁸⁵ who report that, there is a widespread perception among lending institutions in Tanzania that the current legal and institutional framework affecting creation and enforcement of mortgages is inefficient and biased in favour of the rights of borrowers.

Compared with residential properties which require court intervention, many respondents seemed to be satisfied with non-judicial enforcement which is allowed on non-residential properties. From the interviews, it was established that, the main problem of long delay by court injunctions or other court interventions or on procedural grounds on execution of residential property foreclosure seemed to discourage a number of banks not to enter the mortgage market. Other respondents mentioned the bureaucratic procedures on loan registration with the Registrar of Titles and others mentioned the problem of signing Mortgage Deeds in case of non-residential mortgagors who were in joint venture arrangements.

⁵⁸⁵ See Rothenberger (2010), p. 99; Rabenhorst/Butler (2007), p. 3.

4.5.1.2 Culture of Debt Servicing

Credit culture has a major impact on the financial sector.⁵⁸⁶ Due to the fact that, lending to the real estate sector had been minimal, the study amongst others, wanted to establish whether that was related to the poor culture of debt servicing as noted by some scholars (e.g. FINMARK TRUST (2010); Rothenberger (2010); Makoba (2008); Kironde et al. (2003); and Lwiza and Nwankwo (2002)).⁵⁸⁷ Interviewees amongst financial institutions' officials were asked to comment on the culture of Tanzanians in debt servicing. The results are as provided in Table 28.

Table 28: Opinions on Culture of Debt Servicing

Opinion	No. of frequency of mentioning
Is Improving	2
Good	2
Satisfactory	3
Not culture but only circumstances affect debt servicing	2
Still a problem	1

Source: Own Illustration.

As can be seen in Table 28, almost 80% of respondents representing 8 banks considered debt servicing not to be a problem for mortgagors. The respondents were comparing the present time with the situation in 1990s when the rate of default was higher. It should also be noted that, the collapse of the formal housing institution (THB) in 1995 was associated with high default rate.⁵⁸⁸ Although the culture of non-payment of debt by households has been previously reported in the literature, some interviewees revealed that, it is not a culture of not servicing loan but rather the circumstances which may affect loan servicing. These respondents were referring to the circumstances such as poor performance of businesses, loss of employment, health problems and deaths of borrowers. This observation somehow concurs with the survey carried out by FINMARK TRUST (2006)⁵⁸⁹ which notes that, there are people who will not go for a bank loan for fear of not being able to repay. The respondents

⁵⁸⁶ See UN-HABITAT (2008), p. 5.

⁵⁸⁷ See FINMARK TRUST (2010), p. 26; Rothenberger (2010), p. 99; Makoba (2008), p. 182; Kironde et al. (2003), p. 23; also see Lwiza/Nwankwo (2002), p. 46.

⁵⁸⁸ See FINMARK TRUST (2010), p. 15; Makoba (2008), p. 167; also see Mwaisondola (2007), p. 10; Kironde et al. (2003), p. 47.

⁵⁸⁹ See FIMARK TRUST (2006), p. 81.

also provided the figure of default rate for real estate loans in their respective banks as summarised in Table 29.

Table 29: Estimated Default Rate for Mortgages as at October 2011

Name of Bank	Estimated Default Rate (%)
Bank A	6.6
Bank B	0
Bank C	0 and 10 ⁵⁹⁰
Bank D	1
Bank E	3
Bank F	Minimal ⁵⁹¹
Bank G	12
Bank H	0

Source: Own Illustration.

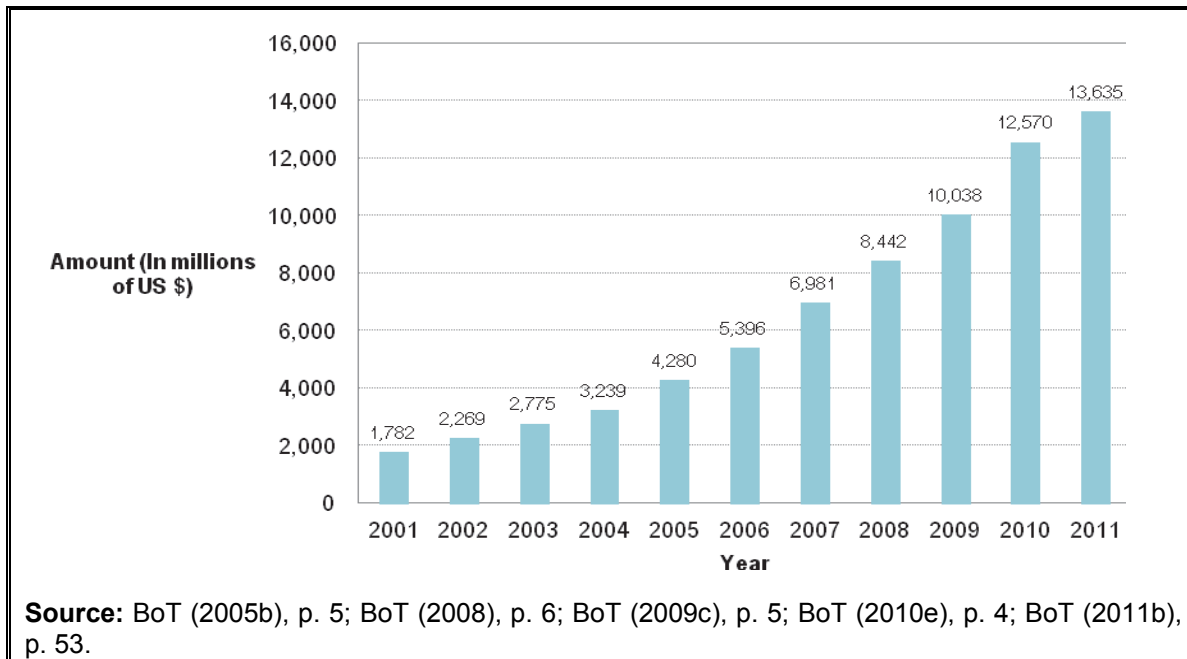
It is evident from Table 29 that the default rate for almost all financial institutions is small. Furthermore, one respondent⁵⁹² maintained that, default rate is not alarming in real estate mortgages compared with personal loans. The answers given by interviewees as summarised in Table 28 and Table 29 suggest that the minimal lending to the real estate sector is not associated with poor debt servicing rather the small size of the financial sector and its inability to offer long-term real estate loans. Tanzania banking sector's assets from 2001-2011 is as shown in Figure 26. Rabenhorst and Butler (2007)⁵⁹³ provide some evidence which suggest that servicing real estate loans is not a serious problem for the mortgagors. The authors report that, one lender, CRDB, began issuing loans secured by mere property license in November 2006, with about 14 loans made by 2007, none of the borrowers had defaulted.

⁵⁹⁰ The default rates were for corporate and retail borrowers respectively.

⁵⁹¹ Exact estimated figure could not be obtained.

⁵⁹² See Official from Bank F (21.10.2011), Interview.

⁵⁹³ See Rabenhorst/Butler (2007), p. 11.

Figure 26: The Banking Sector's Asset from 2001-2011

4.5.1.3 The Attractiveness of the Real Estate Sector to the Financial Sector

All interviewees from 8 financial institutions agreed that, real estate sector was promising for their business. This concurs with Heath (2005)⁵⁹⁴ who notes that, the real estate sector is viewed as a significant contributor to the financial position of financial institutions in terms of mortgage loans as well as asset holdings. However, these respondents had different views regarding the attractiveness of the real estate sector. The aspects mentioned by the respondents which made real estate sector promising for their business are as presented in Table 30.

Table 30: Aspects Making Real Estate Promising to the Financial Sector

Aspects mentioned	No. of frequency of mentioning
Regular income flow	3
Minimum risk	2
Favourable legislation	6
Increase in population rate	2
Establishment of TMRC	4
Plan of NHC Housing scheme to construct 15,000 housing units	3

Source: Own Illustration.

Many of the aspects mentioned in Table 30 have previously been discussed in the present work. The favourable pieces of legislation which were frequently referred to by

⁵⁹⁴ See Heath (2005), p. 6.

respondents are Unit Titles Act 2008, Mortgage Finance (Special Provision) Act 2008, and amendment of the Land Act No. 4 of 1999 on mortgages (i.e. Land (Amendment) Act of 2004). Regarding the plan of NHC of constructing 15,000 housing units, NHC had already signed a Memorandum of Understanding (MoU) with a number of banks to finance home seekers who wish to purchase housing units constructed by NHC at 'reasonable' repayment rates. By July 2012, the NHC had already secured a credit of TZS 165 billion from nine financial institutions to implement its plan of constructing 15,000 housing units. The group of lenders includes CRDB Bank, NMB, Eco Bank, Azania Bank, Banc ABC, CBA, TIB, Shelter Afrique and a one Pension Fund (LAPF).⁵⁹⁵

4.5.1.4 Challenges of Loan Administration

Respondents from financial institutions mentioned banks' strategies on recovering money in case of default which include sending reminders to the borrowers before taking the matter to the recovery units which issue Default Note. Rescheduling of the loan repayment terms was another option given to the borrowers. If the above strategies failed, lenders were then subjected to foreclosure. However, banks still faced a number of challenges in administering loans for real estate development. Table 31 summarises some challenges as provided by interviewees amongst officials of financial institutions.

Table 31: Challenges in Administering Loans for Real Estate Development Purpose

Challenge	No. of frequency of mentioning
Inflated collateral values	2
Lengthy foreclosure process	4
Inflation which affect long-tem loans (mortgages)	4
Income instability which results into default	3
High mortgage administration costs	2
Lack of expertise for assessing viability of development projects	3
Delay in loan registration	5
Lack of Credit Reference Bureaus	7
Inability to service loan due to project cost overruns	5
Problem with real estate professionalism	2

Source: Own Illustration.

From Table 31, it is evident that lack of Credit Reference Bureaus was the main challenge which faced financial institutions. Respondents also insisted that, lack of

⁵⁹⁵ See Daily News, 3rd July (2012c).

credit reference bureaus was one of the reasons which force many commercial banks to charge high lending rates. Due to lack of credit bureaus, lenders relied entirely on credit information which was provided by each potential borrower. In such circumstances, there was a possibility of the mortgagors to hide some key information when applying for mortgage. Given the asymmetric information that exists between lenders and borrowers, risk of losses on bad loans was high. However, the process of establishing credit bureaus was underway. The bureaus are set to create a credit information database which would be available to all financial institutions and therefore minimise some problems relating to lending. Once the credit reference bureaus become operational, some lending risks would be eliminated, which would boost bankers' confidence.⁵⁹⁶

Delay in loan registration was also seen as one of the challenges. The respondents complained about bureaucratic procedures at the MoLHHSD as being the cause of such delays in most cases. Inability to service loans due to project cost overruns was also a challenge in granting loans for real estate development. As seen in the previous sections, the hike of construction costs had been a serious problem to real estate developers. Project cost overruns resulted into delay in project completion, which also caused delay in receiving expected income flows from the property, which eventually disturbed loan servicing schedule.

Other respondents revealed that, their banks lacked expertise to assess viability of project development. This mostly applied to commercial property development. This was regarded as one of the reasons for a number of banks to focus on lending to residential properties than other property types. Inflated collateral property value was another challenge of administering real estate loans. A range of studies have reported about cheating on property values and lack of professionalism amongst real estate practitioners. For instance, Mwaisondola (2007)⁵⁹⁷ observes that, there are reports of borrowers colluding with or bribing valuers to overvalue properties to be used as securities. Also a report by Prevention and Combating of Corruption Bureau (PCCB) on the land sector, reports a scenario where valuers colluded with mortgage applicant

⁵⁹⁶ See Mwaisondola (2007), p. 231.

⁵⁹⁷ See Mwaisondola (2007), p. 230.

by making false identity of a parcel of land purported to be the subject property applied for mortgage to Euro-African Bank while it was not.⁵⁹⁸

4.5.2 Effectiveness of the Ministry Responsible for Land and Local Authorities

Effectiveness of the MoLHHSD and local authorities has been previously discussed in the present work. Generally, these institutions were perceived to be ineffective. More than 80% of respondents amongst local real estate developers and real estate professionals regarded the institutions to be ineffective. In addition to that, more than 60% of foreign real estate developers considered the institutions not to be effective. One of the reasons behind the ineffectiveness was mentioned to be bureaucratic procedures and corruption. Practically, there was a delay in processing various documents related to land ownership and building permits, and other approvals. For instance, about 95% of interviewees amongst real estate developers complained that the expected time frame for their project development completion was never met. Amongst the reasons provided by the respondents include:

- Delay in getting certificate of Rights of Occupancy
- Delay in getting building permit and other documentations
- Delay in mortgage registration

Table 32 shows the Certificates of Right of Occupancy which were registered by the MoLHHSD from 2006 to 2011. On the other hand, Table 33 shows the number of building permits which were issued by one of the three municipalities in Dar es Salaam.

Table 32: Rights of Occupancy Registered and Issued by the MoLHHSD from 2006-2011

S/No.	Zonal Land Office	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
1.	Eastern (Dar es Salaam)	2,750	5,250	5,611	8,223	10,352	6,381
2.	Lake (Mwanza)	805	1,008	1,077	1,597	1,705	4,985
3.	South Western (Mbeya)	586	822	879	1,304	1,565	3,913
4.	Northern (Moshi)	642	903	965	1,432	1,761	4,322
5.	Central (Dodoma)	435	726	776	1,150	1,305	2,188
6.	South (Mtwara)	246	398	425	630	702	1,134
TOTAL		5,464	9,107	9,733	14336	17390	22923

Source: MoLHHSD 2011, Interview.

⁵⁹⁸ PCCB (2005), p. 14.

Table 33: Building Permits issued by Kinondoni Municipality in Dar es Salaam from 2007 to 2010⁵⁹⁹

Year	Applications Received	Successful Applicants	Successful Application (%)
2007	1,396	994	71
2008	1,301	639	49
2009	1,154	702	61
2010	900	502	56

Source: Kinondoni Municipality 2011, Interview.

Data for Ilala and Temeke Municipalities could not be obtained. However, interview with land officers in Ilala showed that the Municipality received between 8-70 applications per month. For instance, a total of 62 applications were made in August 2011, out of which 76% were accepted.

As it can be seen in Table 33, a number of applications were rejected. Amongst the reasons for the rejection include:⁶⁰⁰

- Submission of fake certificates of Right of Occupancy
- Non-compliance with planning standards and building rules (e.g. plot ratios, health, fire etc.)
- Request for property use which differs from the submitted drawings
- Application for a building permit without obtaining transfer of ownership

As for other activities, the process of getting building permit is associated with long procedures. Some of which include the movement of files between different departments such as Town Planning section, Survey and Mapping section, Architecture and Land Development section, Health department, Fire department etc. The system is not computerised, therefore a physical movement of a file is done. Principally, building permits have to be issued within three months after submission of drawings, payment of fees and submission of other necessary documents (such as land rent receipts). However, due to bureaucratic procedures, it normally takes more than that. One of the main reasons for delay is the frequency at which the approval

⁵⁹⁹ The figure for 2010 is as at August 2010.

⁶⁰⁰ See Land Officer 1 (25.10.2011), Interview; see Land Officer 2 (19.10.2011), Interview; also see Land Officer 3 (12.04.2012), Interview.

committee meets. The approval committee meets only once a month (in Ilala Municipality), after every three months⁶⁰¹ (in Kinondoni Municipality)⁶⁰² and also after every three months (in Temeke Municipality). It is not a guarantee that the meetings will take place as scheduled. Sometimes the meetings are postponed due to lack of quorum or lack of funds for sitting allowances.⁶⁰³

However, the MoLHHSD⁶⁰⁴ is in the process of implementing its redevelopment project program in one part of Dar es Salaam city known as Kigamboni, '*Kigamboni New City*'. Kigamboni is located along the Indian Ocean, close to CBD. The area was selected due to the presence of undeveloped large tracks of land. The size of the project area is 64,944,000m². The planned project development consists of residential, commercial, trade and business, industrial, educational, and tourism facilities. The project is estimated to cost about US\$ 8 billion.⁶⁰⁵

According to the MoLHHSD, the project aims at driving social and economic development in the Dar es Salaam suburb while creating a separate urban centre that will diffuse some of the tremendous congestion in the current CBD. The Ministry expects to finance the project using:

- i. Government funds
- ii. Financing through international organisations
- iii. Borrowing
- iv. Issuing of Municipal bonds
- v. Others (e.g. Pre-sale of land and housing, payment-in-kind development)

According to the 2012/2013 Ministry's budget speech, 59% of the Ministry's budget is set aside for the implementation of the project in 2012/2013. The implementation of the project expects to take three phases as follows:

⁶⁰¹ During the interview, the land officer (i.e. Land Officer 1 (25.10.2011)) insisted that, the approval committee sits once per month at that time, although he accepted that the arrangement was not that strict.

⁶⁰² See Land Officer 3 (12.04.2012), Interview.

⁶⁰³ See USAID (2004), p. 133.

⁶⁰⁴ See MoLHHSD website at: <http://www.ardhi.go.tz/kigamboni-new-city.html>; also see MoLHHSD (2012), 2012/2013 Minister's Budget Speech.

⁶⁰⁵ See MoLHHSD under <http://www.ardhi.go.tz/sites/default/files/Kigamboni%20New%20City%20C.pdf>.

- Phase I: 2012-2022
- Phase II: 2022-2027
- Phase III: 2027-2032

4.5.3 Effectiveness of Courts and Other Conflict Resolutions

Among other disputes, commercial court which was established in 1999 is responsible for handling real property disputes and foreclosures. However, practically this court is not effective as perceived by 64% of respondents amongst local real estate developers and real estate professionals. As previously noted, even financial institutions perceived the court not to be effective in dealing with foreclosure. All foreign real estate developers assumed the courts and other conflict resolutions to be effective. However, that assumption was based on the fact that, these foreign developers had not so far encountered a scenario regarding real estate activities which required court litigation. These respondents insisted that, it was too early to comment on the effectiveness of courts and other conflict resolutions and they simply assumed these institutions to be effective. Ineffectiveness of courts in the country is contributed by a number of reasons which include but not limited to case-delays, backlogs of cases, limited access to justice, lack of transparency, shortage of financial, physical and other resources, and weak public confidence in the judicial system.⁶⁰⁶

Compared to courts, other alternative dispute resolution mechanisms in place including arbitration, private mediation, early neutral evaluation, conciliation, and community based processes which are incorporated into commercial courts in recognition of the history of customary law considered to be effective in conflict resolution. More than 50% of respondents amongst real estate developers and professionals regarded other conflicts resolutions to be effective. This concurs with the findings by Deininger et al. (2012)⁶⁰⁷ who note that, the majority of existing land disputes could easily be solved by alternative dispute resolution mechanisms. The authors recommend for the need of encouraging use of alternative dispute resolution and mainstreaming its decisions in the formal system.

⁶⁰⁶ See Makaramba (2009), p. 9; see Finnegan (2005), p. 2; see Mwaisondola (2007), p. 4; also see Alemika (2009), p. 3.

⁶⁰⁷ See Deininger et al. (2012), p. 90.

4.5.4 Efficiency of the Construction Industry

Construction industry comprises all professional teams of consultants such as architects, quantity surveyors, engineers, land surveyors, land economy surveyors (valuers, real property investment analysts, estate agents, and property managers), building contractors, and suppliers and manufacturers of building materials. It is an industry characterised by a complex cobweb of relationships both within the industry itself and outside the industry⁶⁰⁸. The interviews conducted with real estate developers and professionals revealed that more than 70% of the respondents were of the opinion that the construction industry in Tanzania was not effective. This was mainly due to its inability of the sector to regulate construction activities and its limited skill and inability to produce sufficient building materials with high quality. It was a situation which forced many developers to import most of the building materials, especially the finishing materials. The problems such as unreliable power supply, inflation and poor state of infrastructure were said to be the reasons for production costs of construction materials to go high. As a result, local construction materials were scarce and expensive compared with the imported materials. In addition to that, the construction sector in the country was also widely believed to be one of the most corrupt.⁶⁰⁹ Unlimited capacity of the construction industry and corrupt practices did not only pose a challenge to real estate development but also were regarded as the reasons for low international competitiveness of the industry.

Tanzania lacks professional skills and competencies expected by the construction and real estate industries. Lack of skilled manpower in the construction sector is also acknowledged by the Construction Industry Policy of 2003; Chilipunde (2010); Chiragi (2000); CRB (2011); Uriyo and Jere (2008).⁶¹⁰ There is also a concern that most local professionals in the construction industry lack exposure to modern construction management techniques, experience and confidence in management of medium-sized and large projects, particularly those involving international contracts.⁶¹¹ Lack of

⁶⁰⁸ See Komu (2011), p. 61.

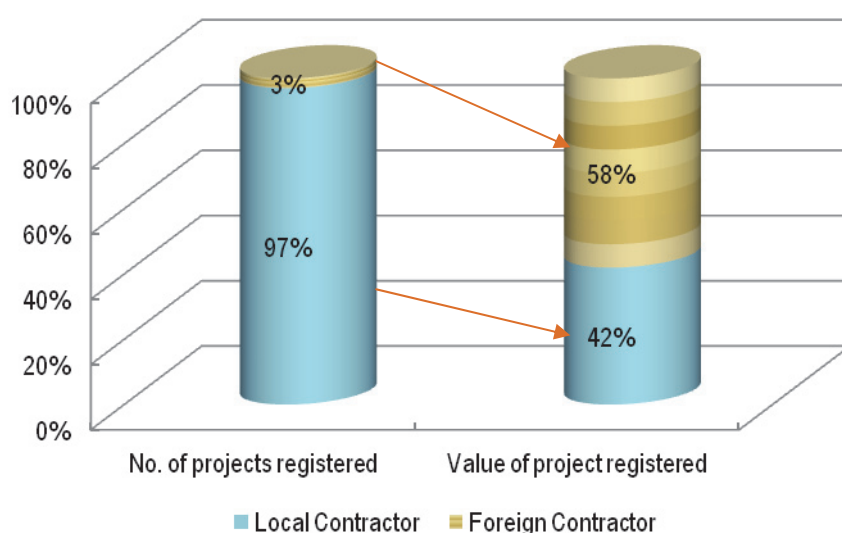
⁶⁰⁹ See TACECA (2008), p. 39; Daily News, 24th May (2011f), The Construction Sector Transparency Initiative's (2009), p. 10-13; World Bank (2004), p. 2; ThisDay, 13th April (2010b); also see CRD (2011), p. 11.

⁶¹⁰ See Construction Industry Policy (2003), p. 14 and p. 47; Chilipunde (2010), p. 20-21; Chiragi (2000), p. 2; CRB (2011), p. 34; Debrah/Ofori (2005), p. 1399 and p. 1409; also see Uriyo/Jere (2008), p. 1.

⁶¹¹ See Local Real Estate Developer 8 (23.09.2011), Interview; Debrah/Ofori (2005), p. 1399 and p. 1407; also see Materu (2000), p. 325.

professional competencies is cited as one of the reasons for major construction work to be undertaken by foreigners.⁶¹² Looking at the mushrooming of high rise buildings in Dar es Salaam for example, it was seen that very few had been built by local contractors.⁶¹³ The construction industry in Tanzania also lack appropriate plant and equipment.⁶¹⁴ However, contractors can hire plants and equipment from a number of commercial plant leasing companies. Figure 27 shows a disparity in the percentage share of registered projects and value of registered projects among local and foreign professionals.

Figure 27: Construction Projects Holding between Local and Foreign Contractors for 2011



Source: Author's Compilation based on CRB (2011), p. 23 and p. 36; Daily News, 26th December (2011h).

It is evident from Figure 27 that although local contractors execute many projects, the projects are just small in terms of value. Foreign contractors generally execute fewer projects but of higher value.

Institutions which offer programs relating to construction and other real estate professions range from vocational training institutes (which offers courses at artisan

⁶¹² See Debrah/Ofori (2005), p. 1399; Uriyo/Jere (2008), p. 1; also see Daily News, 6th September (2011g).

⁶¹³ See CRB (2011), p. 23.

⁶¹⁴ See CRB (2011), p. 11-13; CRB (2010), p. 21 and p. 23; also see Construction Industry Policy (2003), p. 21.

and craftsman level for building and civil work) to higher learning institutions. Some of the higher learning institutions include Ardhi University (ARU), College of Engineering and Technology (CoET), Dar es Salaam Institute of Technology (DIT) and St. Joseph College of Engineering College. For instance, presently, ARU is constituted by six schools namely School of Real Estate Studies (SRES), School of Architecture and Design (SADE), School of Urban and Regional Planning (SURP), School of Construction Economics and Management (SCEM), School of Environmental Sciences and Technology (SEST) and School of Geospatial Sciences and Technology (SGST), and one research institute i.e. Institute of Human Settlement Studies (IHSS) which together prepare professionals at graduate and postgraduate levels in the fields of Real Estate Studies, Architecture, Urban and Regional Planning, Building Economics, Environmental Science and Technology and Geospatial Sciences and Technology.

Review of various curricula for some of higher learning institutions which offer courses in the built environment in Tanzania i.e. Ardhi University, University of Dar es Salaam, Sokoine University of Agriculture, Dar es Salaam Institute of Technology; College of Engineering and Technology and various research institutes reveal for instance that, sustainability education in Tanzania is more popular with courses related to natural resource management and agriculture, rather than those related to the built environment. There are no higher learning institutions which offer courses with comprehensive treatment of sustainability aspects in buildings.⁶¹⁵ For instance, few subjects were seen in the curricula which include some aspects of sustainability. These subjects are in degree courses such as Bachelor of Architecture (i.e. BSc. in Landscape Architecture and BSc. in Interior Design) and in a curriculum for postgraduate courses in Architecture. Some degree courses in physical planning also touch on some aspects of sustainable development. Masters degree in Renewable Energy in Buildings is offered for engineering courses and sustainable resource use is offered in the faculty of forest and natural conservation.

For a construction firm to develop a sustainable competitive capability, it needs to adopt strategies that will attach it to a collection of countries other than the home market.⁶¹⁶ Construction firms in developing countries may create competitive

⁶¹⁵ See Kongela (2010), p. 4-5.

⁶¹⁶ See Ngowi (1998), p. 187.

advantage by using environmentally harmonious technologies that are based on natural resources such as solar power, wind and rainwater, which are often in abundance.⁶¹⁷ In order to achieve competitive position, it is important for construction firms to form alliance on which gain is realised on the use of each partners' know-how and sharing risks.⁶¹⁸ There is a need to rethink the existing curricular and approaches so as to offer courses which address the industry challenges and to enable local professionals to sustain the industry's competition.

4.5.5 Efficiency of Tanzania Investment Centre (TIC)

Tanzania Investment Centre (TIC) is among the institutions which were generally perceived to be effective. As earlier mentioned, TIC has no land bank for the potential real estate developers. However, many developers maintained that, the Centre provided necessary support whenever possible. All foreign real estate developers (100%) and 60% of respondents amongst local real estate developers and real estate professionals considered the institution to be effective. About 40% of respondents had no opinion on that. This concurs with a report by USAID (2004)⁶¹⁹ which notes that, investors are generally positive about the facilitating services of TIC; in both cases, the speed at which the certificate of incentives are processed and delivered is satisfactory.

Although there were complaints about delays in processing refunds for TIC tax exemptions amongst real estate developers, tax authority was generally considered to be effective. To a large extent, immigration office was also considered to be effective especially in dealing with work permits for foreigners.

4.5.6 Efficiency of Tanzania Bureau of Standards (TBS)⁶²⁰

Tanzania Bureau of Standards (TBS) is Tanzania's sole body for measuring and controlling quality of products of all descriptions. The standards measured by TBS ranges from health, safety, and the environment. Amongst the functions of TBS include making arrangements or providing facilities for examination and testing of commodities and any material or substance from or with which, and the manner in which, they may

⁶¹⁷ See Ngowi (2001a), p. 293.

⁶¹⁸ See Ngowi (2001b), p. 242-243 and p. 248.

⁶¹⁹ See USAID (2004), p. 11.

⁶²⁰ In addition to interview conducted to the TBS official, other information in this sub-section had been obtained from TBS website under http://www.tbs.go.tz/index.php/services/category/testing_services_facilities/.

be manufactured, produced, processed or treated. It approves, registers and controls the use of standard marks in accordance with the provisions of the Standards Act, and provides for the inspection, sampling and testing of locally manufactured and imported commodities with a view to determining whether the commodities comply with the provisions of the Standards Act or any other law dealing with standards relevant to those commodities. TBS has several functions that require permits, testing and calibration, and licensing. TBS operates three product certification schemes; namely the Standards Mark of Quality Certification Scheme; the Batch Certification Scheme and the Tested Product Certification Scheme. The Bureau also operates the Systems Certification Scheme.

TBS has a building and construction section which deals with testing of building materials as well as building components for properties such as strength and deformation properties, tightness, composition and dimensional changes, and performing field investigations for various load tests and drilling of concrete cores from completed constructions for testing of strength. This implies that there are standards specified by TBS to which property developers need to comply in terms of building and construction materials. However, about 78% of respondents were of the opinion that TBS was not effective in controlling quality of construction. Some of the arguments against ineffectiveness of TBS as narrated by respondents include:

.....sample of building materials, both local and imported, was supposed to be sent to TBS for testing and approval, however, TBS is not effective. The process of testing and approving is bureaucratic; and in most cases it leads to corruption (Local Real Estate Developer 15 (07.10.2011))

..... at present, the country does not have an effective institution to take care of construction materials quality control. This causes a lot of environmentally-unfriendly materials entering the country and especially from China (Local Real Estate Developer 6 (19.09.2011))

Like other countries worldwide, Tanzania has a set of guidelines, standards and specifications for the building/construction materials. Practically, all construction materials are to be tested and approved by TBS. Approved products are then marked with a TBS Certification Mark. Table 34 shows some of the building materials and

specification for the quality tests as used by TBS. The Table also shows the Tanzanian quality standard with cross reference to the international standards. The international references for the quality management standards of building materials in the country had been mainly adopted from the British Standard (BS), European Standard (EN), and International Organisation for Standardisation (ISO).

Table 34: Construction Materials Quality Standard and Test

Construction material	Quality Test	National Standards	Equivalent International standards
Timber	-Dimension for coniferous sawn timber -Determination of moisture content for physical and mechanical tests etc.	-TZS 257:2009 -TZS 258:2009 -TZS 256-1:2009 -TZS660-3:2006	-BS 5666-3:1979 -BS 373:1957 -ISO 3130:1975
Ceramic	-Water absorption and surface quality -Breaking strength -Bulk density -Chemical resistance -Crazing resistance -Frost resistance -Thermal shock resistance -Moisture expansion etc.	-TZS 1093-1:2008 up to TZS 1093-14:2008 -TZS 954:2008	-ISO 10545-2 & 3:1995; -ISO 10545-4:1994; -ISO 10545-5 & 6:1995; -ISO 10545-7:1996; -ISO 10545-8:1994; -ISO 10545-9:1994; -ISO 10545-10:1995; -ISO 10545-11:1994; -ISO 10545-12,13 & 14:1995 -ISO 10545-15,16 & 17:1995 -BS EN 196-21:1992
Cement	-Determination of strength -Chemical analysis -Setting time and soundness -Fineness -Chloride, Carbondioxide and alkali content of cement -Total organic Carbon content in limestone -Free calcium content etc.	-TZS 760-2 & 3:2002 -TZS 760-6 & 7:2002 -TZS 760-21:2004 -BCDC 18(1255) -TZS 727-1:2002	-EN 196-3 & 3 -EN 196-6 & 7 -BS EN 196-21:1989 -BS EN 196-21:1992
Roofing Tiles	-Water absorption -Permeability test -Breaking load test	-TZS 489:1992	-BS 402:1979
Concrete	-Tolerance -Flatness -Parallelism -Cylindricity	-TZS 62-3:1980	-BS 1881-3:1970 -ISO 1920:1976

Source: TBS, 2011.

It is clear that, almost all developing countries in Africa are in the development stage of construction in terms of technology, quality and quantity and Tanzania is not an exception. Despite great improvement in the construction industry worldwide due to technological advancement, environmental concerns and industry competitiveness, it is clear from Table 34 that some of quality test standards used by TBS are outdated. International standards are continually being revised. Although TBS has revised its standards, the revision was based on some outdated versions of international standards. For instance ISO 2008 version (i.e. ISO 9001:2008) has replaced all former

standards of 1994 version (i.e. ISO 9001:1994, ISO 9002:1994 and ISO 9003:1994) and ISO 14001:2004 has replaced ISO 14001:1996. For instance, Germany, UK, USA, Spain, Japan, China and Russia were some of the top ten countries for ISO 9001:2008 certificates in 2010.⁶²¹ ISO 9004:2009 and ISO/TS 12389:2009 which provide recommendations for many of the elements of construction, assemblies, components and fittings which comprise the built environment are also in use.⁶²² With a dynamic construction environment, constant development and updating of the existing standards is required for Tanzania construction industry as well.

To a large extent, the building material quality standard tests in Tanzania are just on papers of TBS, compared to the reality on the ground. Both local building material industries and importers were taking advantage of the inefficiency of TBS to manufacture or import cheap and substandard products in the market. Since there is no guidance from the government or any other institution, developers are not protected; they are forced to use those materials. Common imported building materials in the country included cement and cement products, tiles and other ceramic products, iron and steel products, and other metal products, timber products, glass, paints and varnishes, electrical, and sanitary equipments.

The interviewed official from TBS⁶²³ maintained that, officials from TBS were present in all container handling terminals i.e. Inland Container Depots (ICDs) for verification on imported products. During the interview, it was reported that apart from shortage of manpower to make follow-up on imported products to a number of warehouses, the new system of scanning products created difficulties for the TBS to undertake product tests. Scanning of the product was done by Customs and Excise Department of the Tanzania Revenue Authority (TRA). In most cases scanning was done so as to determine risks of the shipped products and not testing the quality of products. TBS also did not have the mandate of handling documentations for imported products, which made it more difficult to undertake product tests.

⁶²¹ See <http://www.iso.org/iso/iso-survey2010.pdf>.

⁶²² See http://www.iso.org/iso/publicizing_iso9001_iso14001_certification_2010.pdf; also see http://www.iso.org/iso/home/store/catalogue_tc/catalogue_detail.htm?csnumber=51402.

⁶²³ See Official from TBS (27.10.2011), Interview.

However, starting from 1st February 2012, TBS introduced a new product conformity assessment programme for the control of certain categories of imported goods. The programme known as Pre-Export Verification of Conformity (PVoC) to standard aimed at amongst others ensuring quality of products, health and safety and environmental protection, and minimising risk of unsafe and sub-standard goods entering Tanzania through the execution of conformity assessment activities in the country of export. Products that are subject to PVoC programme include building materials some of which include glass products, cement, limestone, gypsum, timber products, roofing sheeting, roofing tiles, suspended ceiling and grids, tiles, sanitary ware appliance, stainless steel hand wash basins, pipes and fitting, ceramic products, paints, varnishes thinners, putties and related products.

Respondents amongst local and foreign real estate developers were also asked to describe whether local building materials are good and also to describe the reasons behind high usage of imported materials. 19% of local real estate developers were of the opinion that local building materials were good, 48% opined that only some of the local materials were good while 33% said that local materials were not good. 67% of the foreign developers regarded some of the local materials to be good, while 33% were of the opinion that the local materials were not good. Some of local materials which were cited to be good include cement, coarse aggregate, gravel, sand, steel, and timber. The respondents who perceived local construction materials not to be good cited their low quality and limited supply. They further provided that, relying on local building materials would endanger timely completion of big projects. Others maintained that, generally, finishing materials were not available locally, and even if developers managed to use other local materials, they had to use imported finishing materials.

Generally, local and foreign real estate developers had almost similar views on environmental friendliness of imported construction materials. While 40% of local developers considered imported materials to be environmentally-friendly, 50% of the foreign developers had the same opinion. However, environmental friendliness of building materials seemed not to be an important criterion for a good number of local developers. 20% of the local developers had no opinion on that, while 27% of the local developers maintained that imported materials were not environmentally-friendly at all.

While 13% of local developers considered some of the materials not to be environmentally-friendly; 33% of foreign developers had the same opinion that some of the imported materials were not environmentally-friendly, and 17% of foreign developers considered imported materials not to be environmentally friendly at all.

The general views of respondents on environmental friendliness of imported construction materials show that, most of the materials were not environmentally-friendly. All respondents maintained that, there was no restriction on the importation of building materials. Under such circumstances, chances of importing cheap and environmentally-unfriendly building materials were higher. One of the local media⁶²⁴ had once reported that, fake and unbranded products in the country that did not meet standards not only had adverse social impacts to the consumers but also affect the economy.

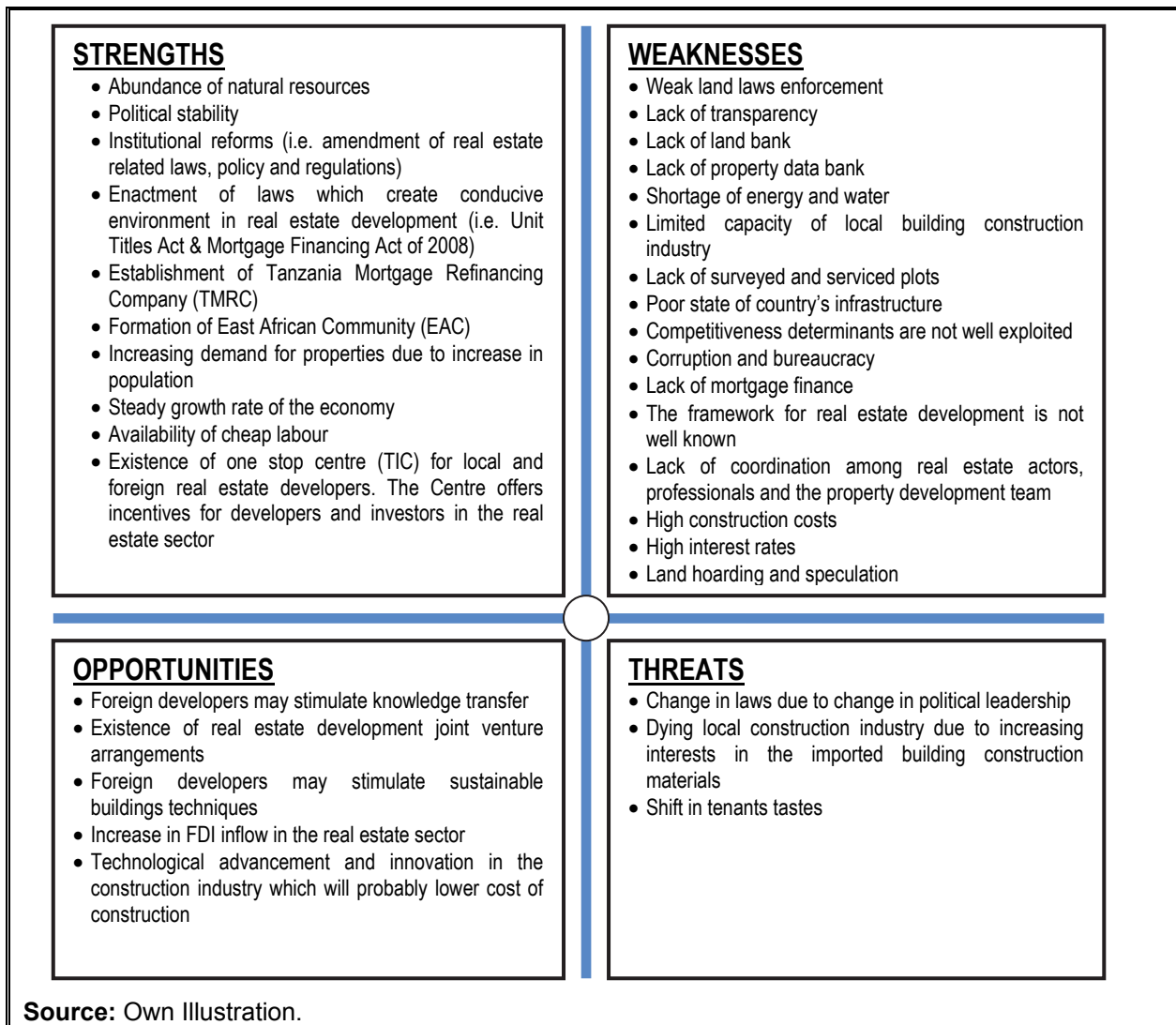
4.6 Enhancing Competitiveness in the Real Estate Sector

4.6.1 Strengths, Weaknesses, Opportunities and Threats (SWOT)

Analysis

Identification of the strengths and weaknesses in the internal environment and of the threats and opportunities in the external environment of the industry are the cornerstone of enhancing the growth and competitiveness of the industry. After examining the drivers and barriers for the real estate development, and the effectiveness of different institutions dealing with real estate activities, SWOT analysis for the real estate development sector was established. SWOT analysis enables identification of the value drivers and determines the course of action to the weak areas to ensure the growth or survival of the industry and on achieving the industry's competitiveness. The SWOT analysis for the real estate sector in Tanzania is as provided in Figure 28.

⁶²⁴ See the Daily News, 24rd May (2011e).

Figure 28: SWOT Analysis for Real Estate Sector⁶²⁵

Analysis of Strength, Weakness, Opportunity and Threat shows that, there are still inefficiencies in the Tanzanian real estate development system that must be addressed to give room for more competitive environment amongst the players. Competitiveness can be initiated by the real estate stakeholders; however, it needs support from the government as to the creation of conducive investment and development environment and on enforcement of real estate related laws and regulations. In order to ensure competitiveness and growth of the real estate investment and development activities, there is a need to align the interest of real estate stakeholders with those of the government. However, the discussed SWOT

⁶²⁵ Author's own conceptualisation and the analysis of interviews enabled the formulation of SWOT Analysis.

attributes do not claim to be comprehensive, especially due to the fact that real estate market depends on many other factors which are constantly changing. The attributes try to provide an overview of the sector for the time being. Section 4.6.2 discusses the opinions of respondents on the techniques for enhancing competitiveness in real estate development.

4.6.2 Techniques for Enhancing Competitiveness in Real Estate Sector

There are still inefficiencies in real estate development system that must be addressed to create a room for more competitive practices amongst the players. To create the state of competitiveness, both the stakeholders and the government have significant roles of ensuring that real estate development and investment becomes competitive and growing. After outlining SWOT analysis for the real estate development, the views of respondents regarding techniques of enhancing competitiveness were gathered. Table 35 presents developers and real estate professionals' opinions on enhancing the state of competitiveness in the sector. The opinions are grouped into major and specific themes. Number of frequency of mentioning items are presented in a separate column with the number of mentioning of each specific aspect given in the bracket of each items.

Table 35: Opinions on Enhancing Competitiveness in Real Estate

S/No.	Major aspect	No. of frequency of mentioning	Specific aspects
1.	Real estate sector need to be well regulated and organised	38	<ul style="list-style-type: none"> • Enforcement of land laws (9) • Addressing land hoarding and speculation (4) • Improvement in land delivery system (4) • Provision of surveyed and serviced land, and infrastructure (9) • Establishment of property data bank (2) • Addressing corruption and bureaucracy (5) • Costs of property development need to be realistic (2) • Operationalisation of new regulations (1) • Number of professionals have to be increased (2)
2.	More Transparency in land sector	15	<ul style="list-style-type: none"> • Enforcement of professional law to guide professional conduct (2) • Enhancement of transparency in land and real estate activities (10) • Establishment of property data bank (3)
3.	Availability of development finance	10	<ul style="list-style-type: none"> • Financial support to end users (3) • Availability of finance at reasonable interest rates (7)

S/No.	Major aspect	No. of frequency of mentioning	Specific aspects
4.	Improvement of construction industry	6	<ul style="list-style-type: none"> • Prices of construction materials need to be regulated (2) • Strict supervision of building contractors (1) • Production of construction materials in large quantity by local industries (1) • Control importation of cheap construction materials (1) • Subsidies to the construction industry (1)
5.	Presence of political will in real estate sector	7	<ul style="list-style-type: none"> • Establishment of independent department to deal with real estate development and investment (2) • Available budget for real estate development purpose at MoLHHSD (1) • Need of political will to deal with malpractices(4)
6.	Change in the legal and other procedures	6	<ul style="list-style-type: none"> • Quick dispute settlement (4) • Reasonable time to implement foreclosure (2)
7.	Establishment of techniques of attracting foreigners	9	<ul style="list-style-type: none"> • Land bank in place (3) • Aggressive marketing of opportunities in real estate sector (2) • More incentives in land sector (4)
8.	Make effective use of the higher learning institution	4	<ul style="list-style-type: none"> • Higher learning institution could conduct more researches in real estate and land matters (3) • Stakeholders could make effective use of the research reports (1)

Source: Own Illustration.

As shown in Table 35, about 30 specific issues were mentioned by respondents amongst real estate developers and professionals on how competitiveness of the real estate sector could be enhanced. Many of the mentioned items have already been discussed in section 4.4 of the present work. The respondents' opinions are as discussed below.

4.6.2.1 The Need to Organise the Real Estate Sector

Overall, the opinion on organising the real estate sector scored the highest ranking in the mechanisms of enhancing competitiveness in the real estate sector. The respondents also described specific aspects requiring the attention of more organised sector. They considered provision of surveyed and serviced land, and infrastructure as aspects which call for proper organised sector. The country has abundant land, however, shortage of surveyed and serviced plots in almost all major cities and towns of Tanzania is one of the factors suggesting that the sector is not well organised. As earlier mentioned, many respondents considered land laws to be favourable, but its enforcement had been generally weak, meaning that, proper enforcement of real estate related laws, regulations and policy is needed to enhance competitiveness in

the sector. Other aspects which needed to be addressed so as to achieve the state of competitiveness in real estate sector include: land hoarding and speculation, land delivery system, costs of property development, operationalisation of new regulations, and insufficient number of real estate professionals. More regulated and organised real estate sector would not only increase transparency, but also competitiveness of the sector.

4.6.2.2 Transparency in Land Sector

Only transparent markets can create confidence and be attractive to professional investors.⁶²⁶ Schulte et al. (2005) provide further that, transparent markets provide as much information as possible for all market participants regarding rental market (e.g. average and top rents, lease rents, demand and supply of space), investment market (e.g. property rents and yields; purchase and selling prices), property and construction market (e.g. building costs), and capital markets (e.g. lending conditions). In order to enhance competitiveness, respondents were also of the opinion that real estate activities could be conducted in a more transparent way. Respondents further mentioned establishment of property data bank and enforcement of professional law to guide professional conduct as amongst the mechanisms of achieving transparency. Regarding property data bank, a study by Kusiluka (2012)⁶²⁷ notes that, in the absence of an investment property data bank and investment analysis regulations, the credibility and reliability of various investment reports produced by investors, professionals and consultants is low. With regard to the enforcement of professional law, Mercer and Kleiner (1997)⁶²⁸ insist that, the real estate companies that will continue to survive and prosper are those who understand the need for professional development, service excellence and standard business practices.

4.6.2.3 Availability of Development Finance

Availability of development finance seemed to be one of the techniques of achieving competitiveness in real estate sector. As already pointed out previously, due to the small size of financial sector in the country, property development finance was minimal. It is however, indisputable that, competitiveness in the sector would hardly be

⁶²⁶ See Schulte et al. (2005), p. 90-91.

⁶²⁷ See Kusiluka (2012), p. 121.

⁶²⁸ See Mercer/Kleiner (1997), p. 33.

achieved given the prevailing status. Establishment of TMRC was a step forward, more strategies of raising funds for real estate development purposes need to be in place. The scope of funding could be widened to establish easy and friendly borrowing environment for prospective developers of all property types.

It was also the suggestion of three respondents⁶²⁹ that, there could be a deliberate arrangement to finance the end-user (i.e. prospective property purchasers). The respondents were of the opinion that, the present practices tend to sideline this category. They provided further that, unless the end-users were given easy access to finance, it is likely that the properties will take long to get purchasers and hence loss to the developers.

4.6.2.4 Establishment of Techniques for Attracting Foreign Real Estate Developers

Respondents also opined that, there could be techniques for attracting foreign real estate developers. This could be achieved by having land bank in place, aggressive marketing of opportunities to the real estate sector and providing more incentives in land sector. Although TIC offers a number of incentives for investors and developers, respondents seemed not to be satisfied. The fact that, the real estate sector was growing at a pace that was not justified, there could be extra strategies for attracting developers. This could range from fiscal incentives to non-fiscal incentives. Special treatment could as well be given to developers who undertake mass development and who incorporate green technologies in their development projects.

Although many respondents considered TIC to be generally effective, there are some weaknesses in dealing with investors which have been reported. For instance, a study by Kusiluka (2012)⁶³⁰ shows that, the government through TIC has either not always kept some of its promises to the potential investors at all or it did not do it in time. The author provides further that there are scenarios which described conflicting views of some foreign investors, government and TIC officials, which eventually resulted into losses to investors and sometimes allowing chances for some incompetent foreign

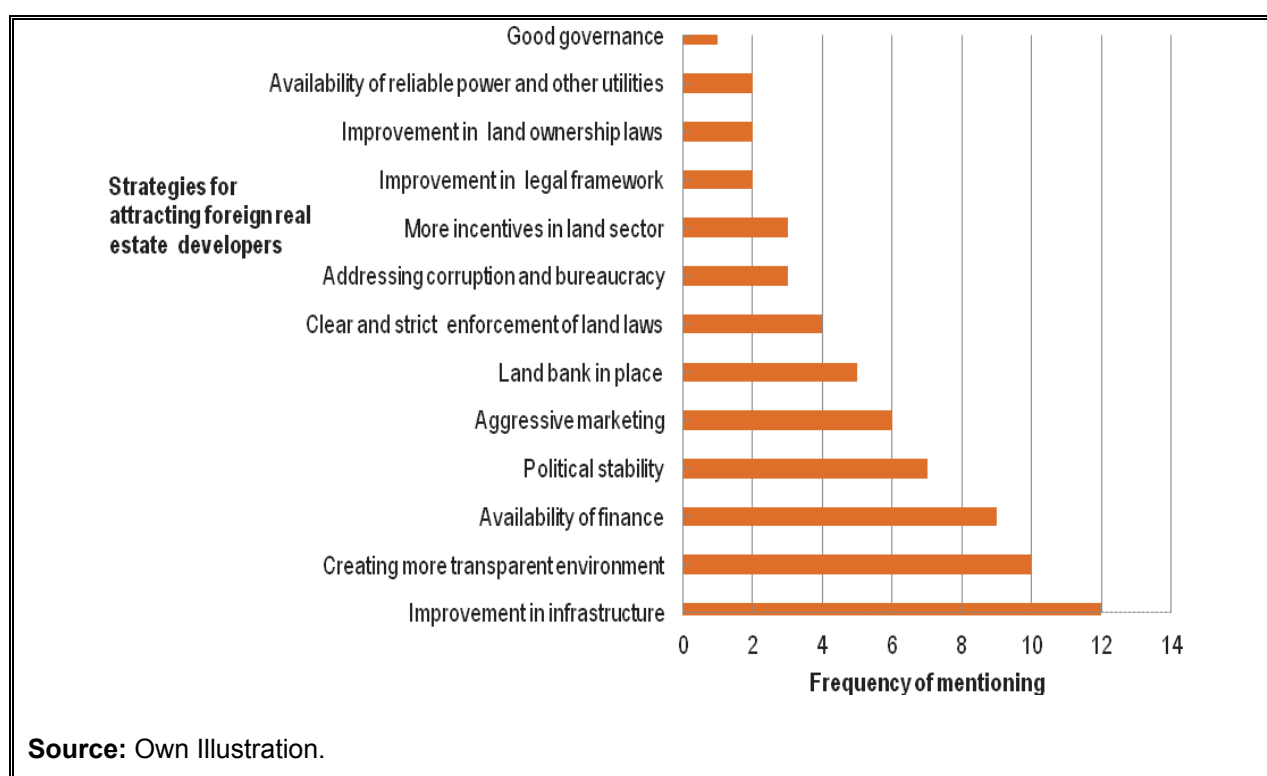
⁶²⁹ See Local Real Estate Developer 1 (17.08.2011), Interview; see Official from Bank G (03.10.2011); Interview; also see Local Real Estate Developer 6 (19.09.2011), Interview.

⁶³⁰ See Kusiluka (2012), p. 184-185.

investors to shift blame to government for their failure. To enhance competitiveness and growth in the real estate sector, there is a need to have new strategies for attracting foreign real estate developers and investors that would be friendly and acceptable to both parties.

Respondents amongst real estate professionals were asked to mention specific aspects that need to be addressed so as to attract foreign real estate developers and investors in the country. The results are as summarised in Figure 29.

Figure 29: Strategies of Attracting Foreign Real Estate Developers and Investors



As seen in Figure 29, many strategies for attracting foreign real estate developers and investors have been previously discussed as strategies for enhancing competitiveness in real estate sector. These aspects generally seemed to have equally significant importance to both developers, local and foreign.

4.6.2.5 Political will in the Real Estate Sector

The need for political will which was regarded as one of strategies of achieving competitiveness in real estate development sector, was broadly discussed in sub-

section 4.4.1.10 of this work. To contribute further to the discussion, two respondents⁶³¹ insisted on establishment of independent government department to deal with real estate development and investment. One respondent⁶³² was of the opinion that, there could be available budget for real estate development purpose at the ministry responsible for lands. The respondent maintained that, Tanzania Building Agency (TBA) which is under the Ministry of Works has a budget for real estate development purpose. The respondent suggested that budget for real estate development purposes could also be extended to the ministry responsible for lands to enable the ministry put in place physical and financial arrangement support for large developers.

4.6.2.6 Improvement of Construction Industry

The cost of construction is higher in Tanzania compared with other countries in East Africa.⁶³³ To achieve growth and competitiveness in the real estate industry, the construction industry, amongst others, has to consider regulating prices of construction materials, strict supervision of building contractors, increase production capacity of building construction materials, and control importation of cheap construction materials. Respondents were of the opinion that, costs of construction need to be adjusted to reflect the economic condition of the majority of Tanzanians. One respondent⁶³⁴ was of the opinion that, the government could try to create a conducive environment for developers to get construction materials locally at a cheaper price; this could be achieved by elimination of some taxes. As seen in sub-section 2.4.2.2, Tanzania has a lot of indigenous construction materials which would enhance affordability. This takes note of Hilbers (2005); Hilbers et al. (2001)⁶³⁵ who observe that, the fundamental equilibrium price is the one at which the stocks of existing real estate equals the replacement cost. The authors provide further that, if the replacement cost is above the price of real estate, no new construction will take place, and if it is lower, new construction will equilibrate the market.

⁶³¹ See Real Estate Professional 6 (23.02.2012), Interview; also see Foreign Real Estate Developer 1 (18.10.2011), Interview.

⁶³² See Real Estate Professional 1 (14.09.2011), Interview.

⁶³³ Refer to discussion on section 3.5.2 of the present work.

⁶³⁴ See Local Real Estate Developer 8 (23.09.2011), Interview.

⁶³⁵ See Hilbers (2005), p. 229; also see Hilbers et al. (2001), p. 4.

4.6.2.7 Change in the Legal and other Procedures

To ensure the competitiveness, there are issues within the real estate stakeholders that need to be addressed; however there is a need for changes within other institutions. It had been a concern of many respondents that there is delay in implementing foreclosure and resolution of land conflicts. Quick dispute settlements and reasonable time to implement foreclosure are some of the issues which need change in the legal procedures. In addition to that, other bureaucratic procedures associated with MoLHHSD, TIC, TBS, and TRA also need to be addressed.

4.6.2.8 Effective use of the Higher Learning Institution offering Courses in Real Estate

Four respondents⁶³⁶ were of the different opinions regarding the way of enhancing competitiveness in real estate sector. These respondents mentioned the higher learning institution which offers courses in real estate and other construction related courses to have significant impact on providing guideline for competitiveness. According to the respondents, the institutions should be effectively consulted on the best way of handling land and real estate matters in the country. Also respondents advised that the government and other interested parties should facilitate institutions dealing with land matters, also facilitation could be extended to research institutes and private researchers so as to conduct more research on real estate competitiveness. The respondents also insisted that real estate stakeholders could effectively make use of the said research reports.

4.6.3 Culture and Competitive Advantage

Although culture is a powerful tool that can create and sustain performance and competitive advantage, only few leaders give it the attention it deserves.⁶³⁷ The success or failure of the real estate industry in the market position and the market competition mainly is decided by the real estate industry core ability.⁶³⁸ Foreign real estate developers were asked to describe the cultural differences and how they managed to cope with Tanzanian culture. All respondents accepted that Tanzanian

⁶³⁶ See Real Estate Professional 6 (23.02.2012), Interview; also see Real Estate Professional 10 (18.03.2012), Interview; Real Estate Professional 1 (14.09.2011), Interview and also see Local Real Estate Developer 14 (10.10.2011), Interview.

⁶³⁷ See Madu (2012), p. 1 and p. 6.

⁶³⁸ See Wei et al. (2007), p. 118.

culture is completely different from theirs. The respondents seemed to have no problems in coping with Tanzanian culture. Almost all insisted that, they expected cultural difference and they had to adjust to fit in new culture. Amongst others, a study by Rothenberger (2010)⁶³⁹ carries out assessment of social and cultural aspects of Tanzania in terms of their appropriateness for foreign real estate investors. The author notes that, language barrier between locals and foreign real estate investors was less critical. In addition to that, more than 80% of interviewed foreign developers revealed that, they employed locals so as to quickly cope with general and business culture.

It should be noted that, culture has been regarded as one of the aspects which position a country or industry in a competitive advantage. While Madu (2012); Sadri and Lees (2001); Nel (2009); Ketels (2006)⁶⁴⁰ discuss organisation culture as a driver of competitiveness, Tiwari and White (2010); Van Den Bosch and Van Prooijen (1992)⁶⁴¹ discuss the significance of national culture. Since business culture results in significant impact on achieving competitive advantage, more strategies are needed in Tanzania in the way of conducting real estate development and investment businesses. The industry needs to address cultural aspects such as bureaucracy, corruption, lack of commitment, dishonesty and untrustworthiness.

4.7 Competitiveness Dimensions of Real Estate Sector

After discussing the drivers for competitiveness (sub-section 4.4.1) and presenting techniques for enhancing competitiveness, this study was able to establish the competitiveness dimensions of Tanzania real estate industry. Table 36 presents the dimensions affecting competitiveness of real estate sector with a separate column to indicate its relevance as noted by some scholars. It should, however, be noted that, assessment of Tanzanian real estate competitiveness dimensions in this study only provides guidelines rather than the unique solution for individual developers and investors.

⁶³⁹ See Rothenberger (2012), p. 169.

⁶⁴⁰ See Madu (2012), p. 2 et seqq.; Sadri/Lees (2001), p. 853; Nel (2009), p. 60-61; Ketels (2006), p. 125.

⁶⁴¹ See Tiwari/White (2010), p. 93; Van Den Bosch/Van Prooijen (1992), p. 175.

Table 36: Competitiveness Dimensions of Tanzanian Real Estate Sector

Code	Dimension	Main Argument	Reference
D ₁	Effective regulatory framework	Effective regulatory framework clears doubt on land rights, and increase participation of developers and investors	Rothenberger (2010), p. 163; Deininger et al. (2012), p. 27-28; Lieser and Groh (2011), p. 4.
D ₂	Stable political environment	All rational investors will invest in a country which is politically stable	Rothenberger (2010), p. 186; Lim et al. (2006), p. 269 and p. 274; Lieser and Groh (2011), p. 1.
D ₃	Sound economic policies	An increase in GDP promotes the development of real estate industry	Sun et al. (2010), p. 248; Yazdanifard (2011), p. 1; Lim et al. (2006), p. 268, Sun et al. (2010), p. 248.
D ₄	Improvement in infrastructure	Infrastructure will enable organised and parallel property development. Also it has land use effects and price effects.	OECD (2002), p. 73 and p. 124; Gonzalez-Navarro and Quintana-Domeque; (2010), p. 14-15; Bone-Winkel (1994), p. 52; Alitheia (2011), p. 1-2; Benjamin and Sirmans (1996), p. 2.
D ₅	Financial capability	-Financial capability helps to achieve growth in size and scale -Improvement in financing system and broadening ways of financing to attract more financial institutions lending to real estate industry	Zhang et al. (2011), p. 11-12; Zhang et al. (2010a), p. 529; Zhang et al. (2010b), p. 151; Wei et al. (2007), p. 119; Sun et al. (2010), p. 249; Yazdanifard (2011), p. 1; Li et al. (2009), p. 568; Zhang et al. (2010), p. 529; Hilbers et al. (2001), p. 13 and p. 29; Rothacher (2011), p. 51; Lieser and Groh (2011), p. 1.
D ₆	Transparency of the real estate market	Transparency in real estate market increases number of participants and attracts foreign real estate developers and investors	Schulte et al. (2005), p. 90; Kusiluka (2012), p. 237-246; Rothenberger (2010), p. 186; Eichholtz et al. (2011), p. 155; Bone-Winkel (1994), p. 52; Lindqvist (2012), p. 110.
D ₇	Fight against corruption and bureaucracy	Bureaucratic procedures discourage investment and create opportunities for corruption	Rothenberger (2010), p. 186; Zhang et al. (2010), p. 530.
D ₈	Attractiveness of fiscal policy	Many taxes in real estate transaction discourage investment	Rothenberger (2010), p. 186.
D ₉	More incentives in land sector	For the sector growth, there could be incentives to the large developers and those who embark on sustainable building technologies	Zhang et al. (2011), p. 13.
D ₁₀	Strategies for attracting foreign developers	Through aggressive marketing, foreigners will be informed on the opportunities in the land sector	Bone-Winkel (1994), p. 52; Wei et al. (2007), p. 120.
D ₁₁	Land bank in place	Land bank is the basic element for real estate development	Wei et al. (2007), p.119; Zhang et al. (2010), p. 536; Zhang et al. (2011), p. 12; Zhang et al. (2010b), p. 151; Evans (2004), p. 178.
D ₁₂	Political will in real estate activities	Some malpractices in the land sector need government intervention	Kyessi and Germain (2010), p. 200; Payne (1996), p. 13; Syagga and Mwenda (2010), p. 37.
D ₁₃	More regulated and organised real estate industry	Rule of the game should be clear to the participants	Rothenberger (2010), p. 186; Sun et al. (2010), p. 249.
D ₁₄	Well regulated construction industry	Amongst others, unregulated sector results into high construction costs and poor quality of buildings	Eyiah (2004), p. 7-10.
D ₁₅	Efficient land and property pricing	Inflated property and land prices discourage property development	Zhang et al. (2010), p. 530; Zhang et al. (2011), p. 13.
D ₁₆	Strict adherence to real estate related laws, regulations and policy	Poor enforcement of land laws create room for corruption and contribute to mushrooming of unplanned settlements. Additionally it discourages property development and investment	Deininger et al. (2012), p. 104.

Code	Dimension	Main Argument	Reference
D ₁₇	Effective use of professional real estate advices and researches	Real estate is not just like a personal asset, professional advice helps to minimise risks and guides developers in making good investment decision	Kusiluka (2012), p. 250-251; Zhang et al. (2010), p. 529; Zhang et al. (2011), p. 13.
D ₁₈	Clear land rights	Guarantee of property rights increase tenure security and attract investment and development on real estate	Rothenberger (2010), p. 173-174; WEC (2009), p. 4; ILD (2005), p. 11; Toulmin (2006), p. 40; Ball (2006), p. 7; Lieser and Groh (2011), p. 18.
D ₁₉	Sound real estate business culture	Acceptable real estate business culture creates friendly business environment	Wei et al. (2007), p. 121; Zhang et al. (2010), p. 529; Tiwari and White (2010), p. 93.
D ₂₀	Timely development project construction	Unnecessary delays means costs to developers and investors	Zhang et al. (2010), p. 529; Zhang et al. (2011), p. 13.

Source: Own Illustration.

It is considered in this study that the dimensions which are shown in Table 36, are expected to guide policy makers, regulators, real estate developers and investors making informed decisions. The dimensions also provide guidance to the potential foreign real estate developers on how to enter the Tanzanian real estate market and take proper strategy for engaging in the business.

4.8 Incorporating Porter's Measures of Competitiveness in Tanzanian Real Estate Industry

The real estate industry presents a category of investment sector which is fast growing in the country. However, like in many other African countries, real estate development and investment in Tanzania is still at its infant stage. Despite the availability of resources and many other opportunities to support its growth, the sector still faces many challenges. The pioneer of nations and industries' competitiveness (Michael Porter) proposed a model which explains the guideline of competition and highlights what is important in attaining the state of competitiveness. Porter mentioned four variables, which are demand factor, factor condition, firm strategy, structures and rivalry, and related and supporting industries as primary factors which build competitive advantage. Porter also mentioned two outside forces i.e. the role of the government and the role of chances as supporting competitiveness factors. However, the local environment in Tanzania and other countries in sub-Saharan Africa with different settings from those described by Porter, describes other important measures of enhancing industry growth and competitiveness.

Having described real estate development and investment practices, and the SWOT analysis for the industry, this study therefore incorporates and modifies Porter's measures of competitiveness to develop a proposed conceptual competitiveness model for real estate development for Tanzania real estate industry and other countries with similar settings in sub-Saharan Africa. The assessment of Tanzanian real estate competitiveness consists of four core variables (refer to Figure 30) namely; demand factor, factor condition, related and supporting industries, and the role of the government. Also the model has four supporting variables which include; firm strategy, structures and rivalry, social environment, internal investment environment, and opportunities. Each of the core variables affect each other and all in turn, are affected by the supporting variables. The variables are assumed to have significant impacts on the competitive advantage of the real estate industry at present in Tanzania. It should be noted that, the discussion on the variables which affect real estate competitiveness in the sub-section below was done with reference to the existing situation.

4.8.1 Factor Condition

The real estate industry is rich in land resources; which was seen by many respondents as one of the competitive advantages for the Tanzania real estate industry. Following reforms in land sector, land has been an important resource both for the landowners, property owners, tenants, financial institutions and other stakeholders. For instance, at present land is legally recognised to have value, which would enable contracting parties to benefit from different land transactions.

Also the enactment of laws such as Unit Titles Act of 2008 and Mortgage Finance Act of 2008 has brought significant changes in land and real estate sector. At present, the Unit Titles Act of 2008 enables individuals to own unit(s) in a building. Instead of individuals going through the bureaucratic process of acquiring land, surveying, getting permits and other necessary documentation before construction; they can now buy a unit within a building from property developers. The title holders also can use their titles as collateral for loans. This is a significant achievement for Tanzania, a country which is estimated to have more than 70% of its buildings regarded to be dead capital.⁶⁴²

⁶⁴² See Rothenberger (2010), p. 100.

In addition to that, good legislation framework has started to attract interest of foreign developers into the country. For instance, Table 18 showed a number of foreign real estate developers/investors who registered their projects with TIC for the year 2010 only. If one considers investors registered with TIC in years apart from 2010 and those who haven't registered their properties with TIC, the list is expected to be considerably big. Also there could be a number of joint venture projects between local and foreign real estate developers which are not registered with TIC. Foreign developers have to a great extent changed the appearance of Dar es Salaam city for instance, in the development of up market properties which did not use to be the practice before the reforms period.

Porter (1990)⁶⁴³ argues that, competitiveness is not necessarily brought about with bountiful natural resources, the author regarded natural endowment as a non-key factor (general use factor) which does not generate sustained competitive advantages as classical economics insist. However, the classical economics theory is not completely obsolete; its application still seems to be valid in Tanzania and some other developing countries. In many developing countries, resources may be the only part of the '*Diamond*' with potential for achieving competitiveness. This is in line with the observation by Smit (2010)⁶⁴⁴ that comparative advantages and economies of scale play a significant role in achieving gains from business undertaking. Dunning (1993)⁶⁴⁵ also concurs with the importance of comparative advantage that, in one sense it is relevant and it should be widened to embrace all assets which at the time the decision on the use of assets is made, are locked into particular countries.

Tanzania has untapped resources which offer a wide range of investment opportunities (i.e. abundant undeveloped arable land, natural resources, minerals and natural tourist attractions, cheap labour etc.) which could enhance local competitive advantage at the most basic level of economic development. According to Grant (1991)⁶⁴⁶ basic factors (i.e. natural resources, climate, location, and demographics) can provide initial advantages which are subsequently extended and reinforced through more advanced factors. Many of the developing countries and most least developed countries are

⁶⁴³ See Porter (1998), p. 4 and p. 76.

⁶⁴⁴ See Smit (2010), p. 121.

⁶⁴⁵ See Dunning (1993), p. 11.

⁶⁴⁶ See Grant (1991), p. 537.

stalled in resource-driven stage.⁶⁴⁷ The competitiveness of almost all developing countries is still heavily dependent on basic factors of production.⁶⁴⁸

However, abundance of land can only be regarded to be a competitive advantage if there are sound land laws, economic, legal and financial frameworks. In order to capitalise on the advantage of land resources, the real estate industry needs to address the existing industry's weaknesses. Improvement in the state of infrastructure, reliable energy, regulated real estate industry, effective land delivery system, easy access to land and development finance, clear land rights, effective implementation of land laws, effective conflict resolution, transparency, professionalism and expertise, and effectiveness of other institutions dealing with real estate activities are some of basic prerequisites for factor condition (i.e. land) to be an absolute one of real estate competitiveness measure. Dealing with the weaknesses in land and real estate would attract prospective developers and investors to be attracted to Tanzanian real estate market. Any rational developers/investors would invest in a market where there is favourable development and investment environment.

4.8.2 Demand Factor

Analysis of interviews under sub-section 4.3.4 showed that 70% of the local real estate developers and real estate professionals; and 67% of foreign real estate developers acknowledged the existence of strong demand for all property types in Tanzania. Detailed analysis of the effective demand was beyond the scope of this work. This makes it difficult to conclude whether or not sufficient effective demand for properties exist. Effective demand is a reflection of the extent to which tenants/buyers' income, affordability, availability of finance, preferences (size, quality, location, type) and needs combine to result in an actual purchase rather than a mere desire to purchase. Effective demand is therefore supported by purchasing power.

However, the study acknowledges the fact that, the assessment of effective demand and effective supply to a large extent determines the possibility of real estate market transactions. It is also clear that, supply and demand for properties affect prices; prices in turn, adjust supply and demand for real estate. It can, therefore, be assumed that,

⁶⁴⁷ See von Kirchbach (2003), International Trade Centre; also see Narula (1993), p. 87.

⁶⁴⁸ See Narula (1993), p. 89; also see von Kirchbach (2003), International Trade Centre.

high population (i.e. about 45 million people at present with the estimation of reaching 55 million people in 2030), the growth of the economy, increase in development of services sector, increase in demand for plots, and shortage of 3 million housing units in the country form the basis for existence of local demand for the real estate in the country at present. In terms of rental housing needs, NHC alone is not able to meet housing demand which is estimated at between 80,000-200,000 units a year in urban areas.⁶⁴⁹ Also it was noted that, Tanzania has insufficient capacity of high-quality, international-standard hotels to meet current demand, and construction plans fall far short of projected future needs.⁶⁵⁰ This also adds to the justification for existence of demand for real estate.

4.8.3 Related and Supporting Industries

Tanzanian real estate industry cannot be considered to have effective related and supporting industries. As seen in section 4.5, most of institutions dealing with real estate activities⁶⁵¹ were not competitive. The situation resulted not only in slow growth of the sector, but also contributed for instance to lack of development finance, high construction costs, poor quality of buildings, unplanned settlements, corruption, delay in project construction, delay in land conflict resolutions, and importation of low quality building materials. Also there are no significant internationally competitive related industries that can either provide support to the local market through building innovations or those that involve producing complementary products.

Weak real estate financing mechanism for instance is clearly seen in kind and quality of property development, and in time it takes for one to complete property development. Unlike the situation in many developed countries, many owner-occupied residential properties in Tanzania have been built by individual households incrementally using equity; and not constructed by real estate development companies or acquired under mortgage finance arrangements. This is due to lack of access to formal finance for the vast majority of households. A larger proportion of individual developers entirely depend on savings and informal financial sources for purchasing

⁶⁴⁹ See Komu (2011), p. 263.

⁶⁵⁰ See Beye et al. (2006), p. 24-25.

⁶⁵¹ These institutions could act as related and supporting industries.

plots and carrying out development. It is indisputable that, no significant growth would be achieved without existence of efficient related and supporting industries.

4.8.4 Role of the Government

The conceptual model considers the role of the government as one of the core variables. This is contrary to Porter who regards the government as the supporting attribute. The immense role of the government cannot be underestimated in Tanzania, as the prevailing situation suggests. The main government role is needed to create an enabling environment for the real estate developers and investors (both local and foreign), which will assist the sector to gain competitive advantage rather than government direct involvement in real estate activities. Apart from reforms in land sector and other institutions, the government has unfinished role on a number of issues in land and real estate sector. To successfully implement competitiveness strategy in order to enhance growth in the real estate sector, the government's role is still needed in a number of ways including:

- Provision of surveyed and serviced land
- Provision of infrastructure
- Provision of reliable sources of energy
- Strictness on implementation of land laws
- Removing bureaucratic procedures and reducing the level of corruption in land sector
- Dealing with land hoarding and speculation
- Easing tax burden in real estate transactions
- Regulating real estate activities
- Creating favourable environment for the financial sectors to take part in mortgage financing
- Regulating construction industry (e.g. introduction of building standards, subsidies to the companies producing local building materials, control prices of building materials etc.)
- Enforcing strict standards (for quality buildings and building materials)
- Encouraging and promoting sustainable building construction technologies
- Practicing sound corporate governance

Proactive government policies, for instance in Dubai, have contributed to the business competitiveness of Dubai in the world market.⁶⁵² A study by Schmitz and Nadvi (1999)⁶⁵³ note that, strategic responses to the challenges of globalisation in developing countries often require public agencies to act as catalysts or mediators. Land reform programme aimed at establishing mechanisms for resolving special land issues such as land banking, redistribution and resettlement requires political will and substantial financial resources.⁶⁵⁴ For instance, the government of developing countries can influence the price and availability of certain construction materials and thus the type and technical sophistication of construction, increase the tendency for technological innovations, and establish building codes and related regulations placing external constraints on the industry.⁶⁵⁵ Government should create greater competition in the building industry, removing constraints to the development and use of local building materials and reducing trade barriers that apply to property inputs.⁶⁵⁶

4.8.5 Firm Strategy, Structure and Rivalry

This is considered to be far more competitive. There is high investment freedom in the country. For instance, Tanzania foreign contractors and consultants account for about 80% of the market share in terms of value⁶⁵⁷ while 60% of international hotels are owned by foreigners.⁶⁵⁸ However, there is a need to create a more favourable environment that encourages private companies/firms to set and achieve corporate goals. For instance, apart from the Ministry of Lands, which deals with general land matters, there is no specific department dealing with either property development or investment. Mechanisms could be put in place to have a separate department for the real estate activities and to have real estate representatives in decision making at policy level. Private development/investment firms especially from outside could be encouraged to invest in Tanzanian real estate market. To create more rivalry environment, emphasis could also be on improving the business culture. The existing Tanzanian business culture seems not to be favourable especially for foreigners. Firm strategy, structure and rivalry are expected to bring about more advanced building

⁶⁵² See Tiwari/White (2010), p. 39.

⁶⁵³ See Schmitz/Nadvi (1999), p. 1509.

⁶⁵⁴ See Syagga/Mwenda (2010), p. 37.

⁶⁵⁵ See Moavenzadeh/Rossow (1976), p.31-32; also see Moavenzadeh (1978), p. 98.

⁶⁵⁶ See Ebohon et al. (2002), 19.

⁶⁵⁷ See Ntiyakunze (2011), p. 34.

⁶⁵⁸ See Beye et al. (2006), p. 18.

technologies, lower the costs of construction, increase participation in real estate activities and hence stimulate the sector's growth.

4.8.6 Internal Investment Environment

Apart from the on-going institution reforms, enhancement of competitive advantage in the real estate sector needs favourable environment as land ownership, land rights protection, sources and cost of capital, taxes on real estate transactions, transparency, presence of land bank, the business culture, investment facilitation, investment incentives, and labour market. Generally, the internal investment environment seems unfavourable. However, internal friendly-business environment for real estate developers and investors would be improved by enforcement of existing land, economic, fiscal, and political legislation and promotion of efficient corporate governance; which in turn will improve transparency in real estate transactions. A more transparent real estate market will attract foreign investors especially those from developed countries who are still overly skeptical about the African market partly due to lack of transparency.⁶⁵⁹

4.8.7 Social Environment

Social environment in terms of national culture, belief, perceptions, norms and value are some of the factors which need to be considered in achieving the competitive advantage of the real estate industry. A country's socio-cultural framework is closely related to its political environment, influencing the overall investment climate.⁶⁶⁰ Although the country has more than 120 ethnic groups, there are no noteworthy cultural conflicts. Some aspects of social environment (see Figure 31) seem to be somehow favourable. However, in the existing competitive business environment, more improvement is needed. The government and political leadership in Tanzania have lent only nominal support to the culture of competition.⁶⁶¹ For instance, concern over imperfect commitment on the part of the government and TIC was seen to be one of the cultural problems facing foreign investors.⁶⁶²

⁶⁵⁹ See Kusiluka (2012), p. 242; also see Rothenberger (2010), p. 1.

⁶⁶⁰ See Lieser/Groh (2011), p. 4.

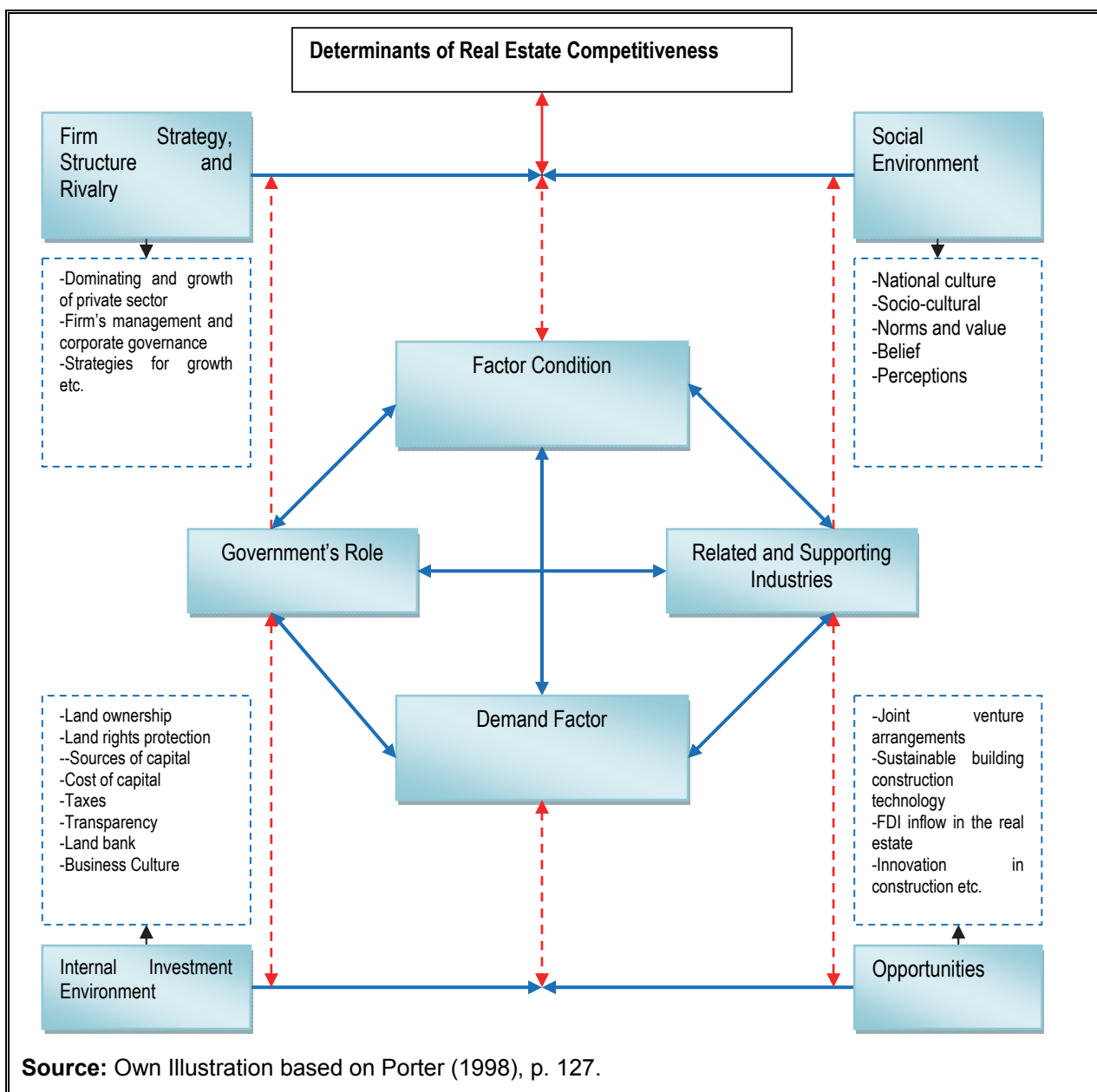
⁶⁶¹ See USAID (2008), p. 143.

⁶⁶² See Kusiluka (2012), p. 190-191, p. 225 and p. 235; also see USAID (2008), p. 110.

4.8.8 Opportunities

Opportunities in the real estate sector are largely outside the power of the industry or practitioners. To a large extent, opportunities would be obtained given the favourable investment environment. Opportunities such as in joint venture arrangement, getting new innovations in building industry, and FDI inflow in real estate sector all require the effectiveness of the sector in dealing with the challenges which exist.

Figure 30: Conceptual Competitiveness Model for Real Estate Industry in Tanzania

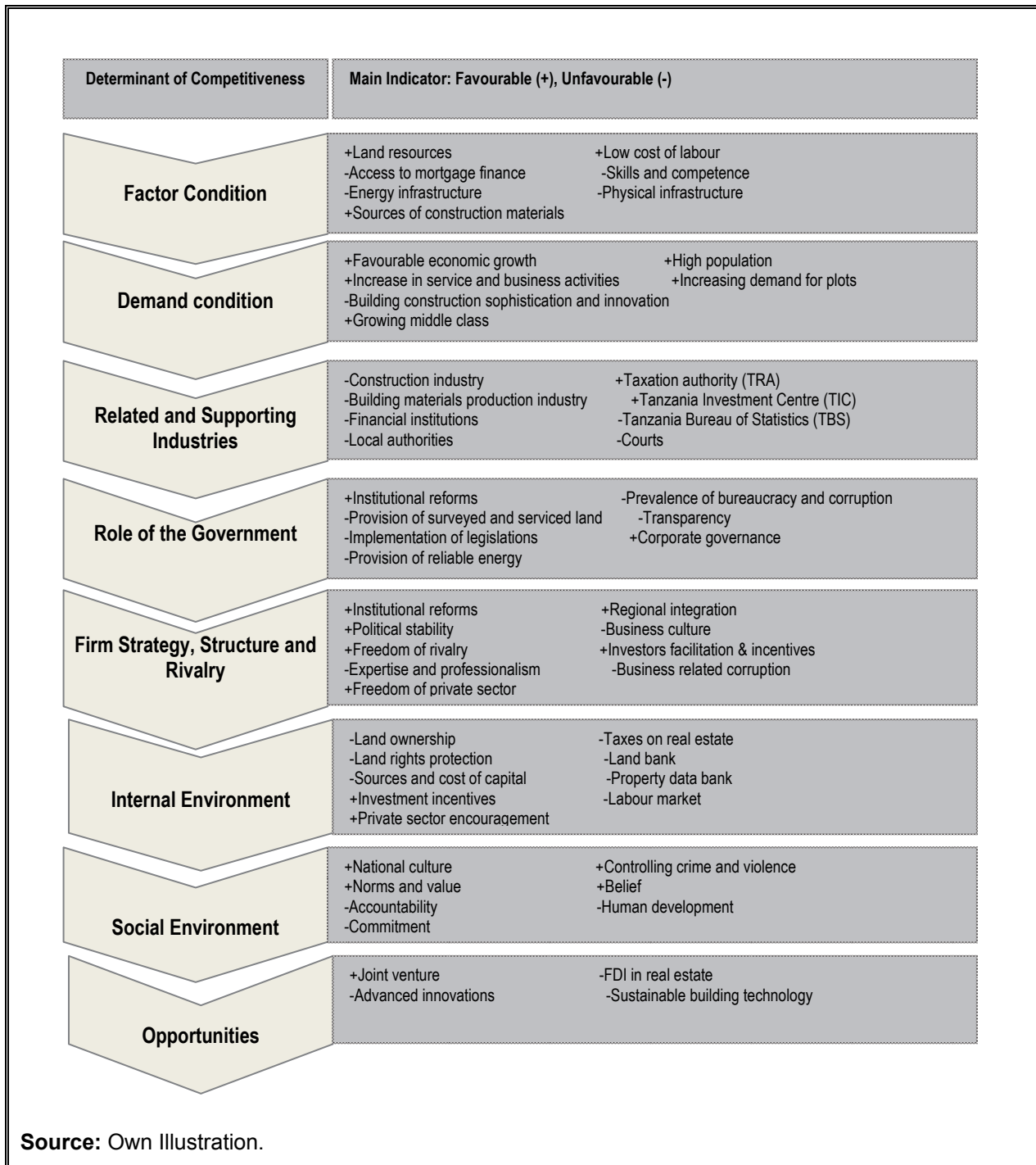


This study acknowledges the fact that, individual real estate development and investment firms are differently structured, which poses a challenge to choose common measures to identify the competitiveness of these varied businesses activities. Although some competitiveness attributes proposed in Figure 30 are either weak or non-existence at present, with regard to the local environment, the determinants are assumed to be important in achieving competitive advantage of the real estate sector.

Determinants of Tanzanian real estate competitiveness show that, the sector currently exploits general basic demand conditions and factor conditions. Related and supporting industries are present but generally weak and the government is not doing enough to execute its roles in the land sector. Firm strategy, structure and rivalry seem to be generally satisfactory; and the social environment is generally favourable. Internal environment and opportunities in the real estate sector seem to be weak at present. Assessment of each determinant of competitiveness and its specific attributes are as shown in Figure 31.

Competitiveness of Tanzanian real estate sector can be achieved through the determinants that are exclusively-home based. Although some of the criticisms of Porter's Model may be justified, the Model still serves a useful framework in gauging Tanzania real estate competitiveness. It should be noted that, there is no single framework/model without its limitations. To a large extent, the effectiveness of the framework/model depends on a number of issues such as the stage of development, internal investment environment and the settings within which each industry or firm is operating. This concurs with the observation by Sirikrai and Tang (2006)⁶⁶³ who emphasise that, there is still debate among several disciplines regarding how the competitiveness of the firms should be measured and what factors affect competitive performance.

⁶⁶³ See Sirikrai/Tang (2006), p. 71.

Figure 31: Assessment of Specific Attributes of Competitiveness

It shows that, competitiveness is a wide concept which needs to be handled with reference to the individual firm by taking note of specific competitiveness determinants and drivers which differentiate each industry or firm in different environments. Therefore, Porter's model is still relevant to provide guideline on different industry's competitiveness.

4.9 Chapter Summary

This chapter presented the analysis of Tanzanian real estate industry's competitiveness based on different criteria. While generally, laws relating to real estate development and investment seemed to be supportive, their enforcement has been one of the major barriers for active participation of real estate developers and investors in the sector. Real estate developers mentioned abundant land resources, rise in demand for properties, and institutional reforms as some of the factors attracting investment in the sector. On the other hand, foreign real estate developers mentioned high demand for modern properties, high return, political stability and presence of TIC as some of motivational factors for investing in the Tanzanian real estate market. Effectiveness of different institutions dealing with real estate activities was discussed. MoLHHSD, financial institutions, construction industry, courts and TBS have generally been considered to be ineffective. TIC was the only institution which was generally considered to be effective.

Different views of the respondents on the drivers and barriers of competitiveness were presented. The findings show significant weaknesses on the existing drivers. Analysis of SWOT in the real estate industry was also presented. A number of strategies for enhancing competitiveness have been mentioned, with the need for regulating the sector considered to be the most effective strategy. Respondents mentioned implementation of land laws, improvement in land delivery system, realistic costs of property development, and addressing corruption, bureaucracy and land hoarding as some of the aspects which require properly regulated sector. Transparency, availability of development finance, and deliberate efforts of attracting foreign developers are also mentioned as mechanisms of enhancing competitiveness. Competitiveness dimensions of the real estate sector were also extracted; the effectiveness of the mentioned dimensions was compared with the existing literature.

Analysis of Tanzanian real estate industry with reference to Porter's measures of competitiveness showed that, demand factor, factor condition, firm strategy, structure and rivalry seemed to be somehow competitive while related and supporting industries, and the role of the government were regarded to be uncompetitive. Other measures of

competitiveness which fit Tanzanian real estate industry were introduced. The measures include internal environment, social environment and opportunities. Opportunities which generally act outside the control of the industry seemed to have impacts of attracting attention of foreign developers only when dealing with the existing sector's weaknesses. Further analysis of the growth of the real estate sector is presented in the next chapter.

5 Assessment of the Tanzanian Real Estate Sector Growth

5.1 Introduction

It is the assumption of this study that, Tanzania's real estate sector is not growing at the pace that is practically and economically justified. After carrying out interviews, this chapter presents the findings on the growth of the Tanzanian real estate sector. Precisely the Chapter dwells on the perceptions of both local and foreign real estate developers, real estate professionals and officials from financial institutions on the growth of the sector. The chapter addresses two research objectives. Firstly, it investigates the slow pace of real estate development growth in the country. Secondly, it assesses the real estate sector framework in the context of Poorvu's model. The chapter also presents the challenges facing the real estate sector in Tanzania.

5.2 Real Estate Development and Investment Environment

A total of 40 interviewees gave the opinions on the various aspects affecting real estate sector growth. The results of respondents are divided as follows: 10% maintained that the development environment was conducive, 40% were of the opinion that the environment was just satisfactory, while 50% opined that the environment was not conducive. The main reason given by those who considered the market not to be conducive was that the sector is not well organised. The respondents who were of the view that Tanzania had an unfriendly development environment were further asked to provide their views on the most problematic aspects. Their views are as summarised in Table 37.

Table 37: Most Aspects Creating Unfriendly Development and Investment Environment

S/No.	Aspect	Local Developers	Foreign Developers	Financial Institutions	Real Estate Professionals	Response (%)
1.	Rents and property price pegged to the US \$ tends to increase rents and property prices	-	-	2	4	15
2.	Inflated land and property prices	7	1	7	5	50
3.	Lack of transparency	10	4	-	8	55
4.	Poor infrastructure	9	2	5	7	58
5.	Poor land delivery system	9	-	-	6	38
6.	Non adherence to real estate related laws	7	3	-	8	45
7.	Shortage of development finance	8	-	4	7	48
8.	Land hoarding	6	1	-	6	33

Source: Own Illustration.

Findings in Table 37 show the five aspects which are generally considered to create an unfriendly development environment include poor state of infrastructure (58%), lack of transparency (55%), inflated land and property prices (50%), shortage of development finance (48%), and non adherence to real estate related laws and regulation (45%). Many of the aspects have already been widely discussed in Chapter Four. However, quoting rents and prices in US Dollars was mentioned for the first time as one of the aspects which create an inconducive development and investment environment. Rents for prime properties in Dar es Salaam were generally quoted in the US Dollar. According to some respondents, the main reason for that was to shield the real value of the rental income from constant currency depreciation. Although respondents assigned little weight (15%), Kusiluka (2012) observed that, rental contracts based on US Dollars have adverse effect on tenants whose income streams were normally in the local currency. Local currency depreciation had always meant rising rent for such tenants.⁶⁶⁴ The author further recommends more institutions, in terms of policies, laws, rules and regulations to take care of pricing in the property investment market sector.

5.3 Growth of the Real Estate Sector

Respondents amongst financial institutions officials, foreign and local developers, and real estate professionals gave varying opinions on the growth of the real estate industry in Tanzania. Three different main groups of opinions were identified during the interviews. Table 38 summarises the opinions given by the different interviewees.

Table 38: Respondents' Opinions on the Growth of Real Estate Sector

Opinion	Financial Institutions	Foreign Developers	Local Developers	Real Estate Professionals	Response (%)
Growing	5	2	6	1	35.0
Growing slowly	2	3	8	9	52.5
Not growing	2	1	1	-	12.5
TOTAL	9	6	15	10	100

Source: Own Illustration.

It is evident from Table 38 the sector is generally perceived to be growing slowly. It was also interesting to find out that, except for the financial institution officials, whose large percentage (i.e. 55%) considered the sector to have been growing, almost half or more than half of respondents from other categories were of the opinion that the sector

⁶⁶⁴ See Kusiluka (2012), p. 121.

has been slowly growing. For instance, 50% of foreign real estate developers, 53% of local real estate developers, and almost all real estate professionals (90%) regarded the sector to have been growing slowly.

The respondents (35%) who considered the sector to have been growing supported their position by giving the following reasons:

- Many people were applying for property development and property purchase loans
- There was an increasing number of foreign developers especially under joint venture agreement
- Other economic sectors were doing well, which has created demand for more properties and hence increase in the sectors' growth
- Compared with the past, the quality of both commercial and residential buildings has been significantly improved. The number of modern commercial and residential buildings in Dar es Salaam had noticeably increased over the last two decades
- The mushrooming of residential apartment development did not exist before the institutional reforms

The views of the 35% of the respondents are supported by TIC (2008a)⁶⁶⁵ which notes that, the share of building has been increasing much faster from 1998 onwards; partly reflecting the boom in the construction industry evidenced by existence of large buildings and 'own home' construction especially in Dar es Salaam.

The 52.5% respondents who considered that the sector has been growing slowly were concerned that a large part of existing stock of properties is dead capital. They regarded many of the existing stock of properties (especially residential properties) to be located in unplanned areas and thus not having legal titles of ownership, implying that the properties could not be used as collateral for bank loans. This observation is consistent with the concern shown by Rothenberger (2011)⁶⁶⁶ who also notes that more than 70% of houses in urban areas of Tanzania were regarded as dead capital.

⁶⁶⁵ See TIC (2008a), p. 13.

⁶⁶⁶ See Rothenberger (2010), p. 100.

The respondents were also referring to a big number of plots which remained undeveloped for so many years in Dar es Salaam. The situation, amongst other things was caused by land hoarding and speculation, shortage of development finance, poor enforcement of real estate related laws and regulations, lack of serviced land, and poor infrastructure especially in the peri-urban areas. For instance, one respondent⁶⁶⁷ acknowledged the sector to have been growing but was unhappy with the growth pattern, particularly the absence of planning. 12.5% of the respondents who regarded the sector not to have been growing mainly referred to the economic data provided by Bank of Tanzania (BoT). The figure for real estate contribution to GDP has been very minimal for many years.

Looking at the number of new property development projects, the sector seems to be booming. This is also evidenced by new stock of buildings and entry of foreign investors especially over the last decade. However, it is likely that the growth is only in absolute terms as the sector's contribution to the country's economy is still marginal. It should be noted that, dominance of informality in the real estate sector in Tanzania may also contribute to the difficulties in establishing the exact value that real estate sector contributes to the economy. The sector lacks reliable basic information such as the level of demand and supply for different real estate types, rents for different property uses, and the number of properties which are constructed yearly etc. One of the reasons for the incompleteness of real estate data is well stated by Lindholm et al. (2006)⁶⁶⁸ who note that the field of real estate lacks empirical testing using well defined models to quantify the value that real estate adds to the economy/firm. This calls for a comprehensive study to quantify the growth of the sector and its contribution to the economy. The problem is also largely contributed by the opacity of the real estate sector, which is a result of the infancy of market institutions in the country.

5.4 Strategies for Achieving Real Estate Growth

The respondents amongst financial institutions officials, foreign and local developers, and real estate professionals, were also asked to provide their opinions on the strategies for achieving real estate sector's growth. The analysis of their opinions is as summarised in Figure 32.

⁶⁶⁷ See Local Real Estate Developer 11 (13.10.2011), Interview.

⁶⁶⁸ See Lindholm et al. (2006), p. 445.

5.4.1 Opinion on Strategies for Achieving Real Estate Sector's Growth

Respondents mentioned 19 different strategies which could enhance the growth of the real estate sector. The first 10 highly ranked strategies include; increased provision of infrastructure (1st), controlling costs of construction and building materials (2nd), Transparency (3rd), stabilising prices of land and property (4th), establishment of property data bank (5th), reduction of interest rates (6th), aggressive marketing of investment opportunities in the real estate sector (7th), establishment of land bank (8th), provision of surveyed and serviced land (9th), and availability of real estate loans (10th).

As seen in Figure 32, many of the proposed strategies mentioned for achieving the sector's growth were previously (see Chapter Four) raised by respondents as drivers for competitiveness. The discussion will therefore focus on those items which were mentioned by respondents for the first time.

5.4.1.1 Balancing the Development Pattern

The respondents (40%) who opined for the need of balancing the development pattern were more concerned with the present development pattern whereby many developers have concentrated on modern commercial buildings and executive residential apartments. Practically, the developers were targeting higher income earners and leaving behind medium and low income earners who are the majority. These respondents recommended government intervention through provision of incentives and subsidies for the developers who show interest in developing low costs houses. The development pattern could be regulated so as to serve small, medium, and high income earners. This view is supported by Nyerere-Inyangete (2010) and UNESCO National Commission of United Republic of Tanzania (2010) who note that, in recent years the institutional developers and large private developers build apartments and homes for foreigners and wealthy people (diaspora) and avoid addressing the needs of low and middle-income groups who are the majority.⁶⁶⁹ One respondent⁶⁷⁰ compared the situation of housing provision in Tanzania with other African countries. The respondent cited an example of South Africa as one of the good examples in Africa which has a policy for provision of low cost housing.

⁶⁶⁹ See Nyerere-Inyangete (2010), p. 27; also see UNESCO National Commission of United Republic of Tanzania (2010), p. 217.

⁶⁷⁰ See Local Real Estate Developer 12 (25.10.2011), Interview.

Also it was the concern of some respondents that, in order to avoid congestion in CBD, more development could be directed to the outskirts of the city. This calls for the provision and improvement of infrastructure in peri-urban areas. The respondents suggested that, residential apartments and detached-houses could be encouraged to take place at the outskirt of the city instead of CBD.

5.4.1.2 Impose Tax and Fine on Land Speculators

About 22% of the respondents were unhappy with land hoarding and speculation. These respondents have suggested that, the local authorities could impose tax and fine to those who keep land without developing it. Considering laxity in the enforcement of the provision of land related laws and regulations, this suggestion may also not work. Should the authorities be strict enough in enforcing development control, there could be no land hoarding. The existing laws and regulations are very clear on development conditions (e.g. see section 34 of the Land Act No. 4 of 1999), but the reality reveals the contrary is the case.

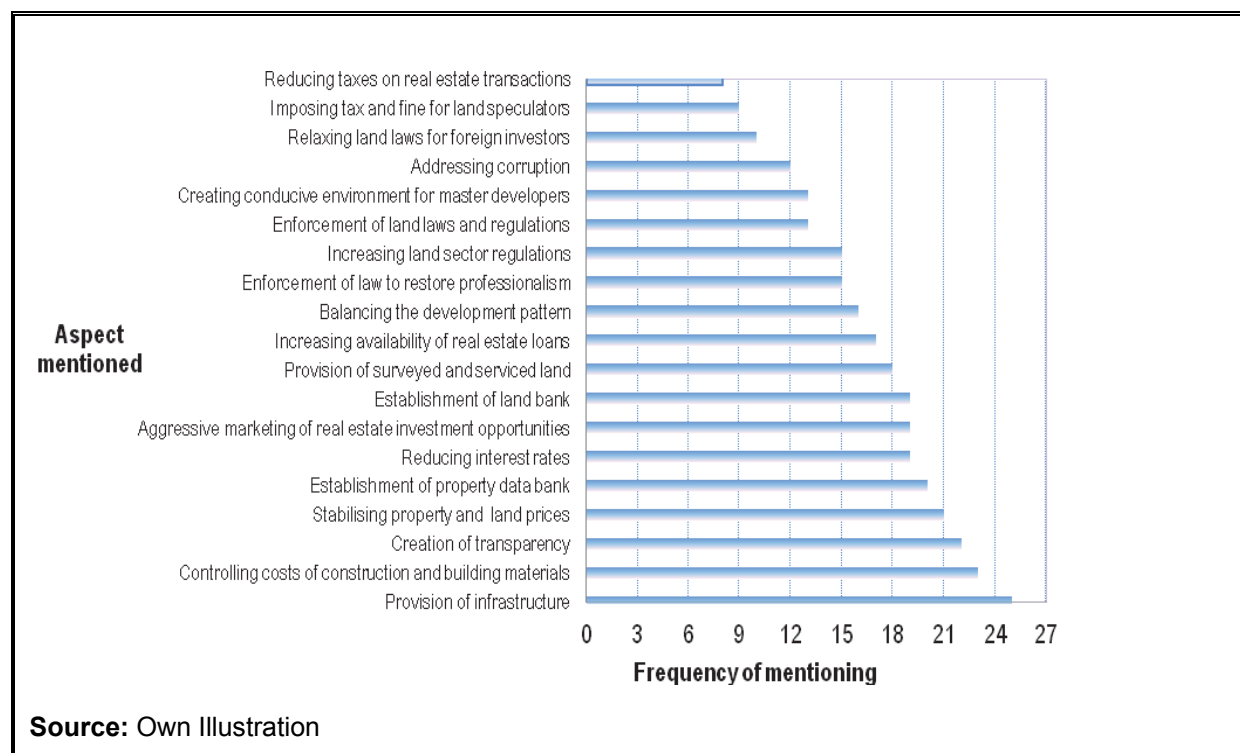
5.4.1.3 Creation of Conducive Environment for Master Developers

Other respondents (32.5%) were of the opinion that the sector's growth would be enhanced if large developers were also facilitated to become master developers. Some of the respondents' perceptions are as provided below:

The country has plenty of land, there should be real estate development companies to construct more houses so as to lower rents like the practice in developed countries (Local Real Estate Developer 11 (13.10.2011)).

The government has to create a conducive environment to attract master developers to take part in Tanzanian real estate sector. Land would be available for those developers if new regulations were introduced to discourage people to hoard land (Local Real Estate Developer 5 (20.09.2011)).

Large developers could try to acquire land and undertake mass development especially outside the city centres. This will reduce congestion in the city, lower the rents, and enhance the sector's growth (Local Real Estate Developer 10 (03.10.2011)).

Figure 32: Strategies for Achieving Real Estate Sector's Growth

5.5 Challenges Facing the Real Estate Sector in Tanzania

Various authors (e.g. World Bank (2010a); Tiwari and White (2010); Ebohon et al. (2002); Kironde et al. (2003); Kironde (1997))⁶⁷¹ have attempted to identify different challenges that face the real estate sector. The authors have cited lack of construction finance, lack of local knowledge, problems associated with obtaining land, certificates of title, building permits, lack of infrastructure on land to be developed, barriers to foreign investment, property rights issues, unavailability of serviced land, lack of transparency and institutional (formal and informal) operating within an economy, economic uncertainty, and exchange rate volatility as challenges which may discourage or impede investment in the real estate market. Apart from the challenges mentioned above, Bukagile (2006),⁶⁷² adds to the list; poor legal framework, lack of knowledge on sustainable strategies of property development, higher interest rates, and bureaucracy as other challenges faced by real estate developers in Tanzania. Tanzania, like other developing countries, faces many challenges which impede the

⁶⁷¹ See World Bank (2010a), p. 2 and p. 37-38; Tiwari/White (2010), p. 4 and p. 80; Ebohon et al. (2002), p. 8 and p. 19; Kironde et al. (2003), p. 33-34; also see Kironde (1997), p. 102.

⁶⁷² See Bukagile (2006), p. 47-48.

growth of real estate sector. Some of the major challenges are as discussed in the sub-sections below.

5.5.1 Lack of Finance

Access to financial services is a driving force for investment and economic growth. As discussed in sub-section 3.6.1.7, Tanzania generally lacks mortgage finance and housing micro finance mechanism for the real estate sector. This has resulted into many households building their homes on incremental basis which normally stretches over years. Also lack of formal and adequate housing finance has resulted into increased number of uncompleted buildings, improved occasionally when funds become available.⁶⁷³ This experience which exists in Tanzania is supported by authors, for instance, Ebohon et al. (2002); Tomlinson (2007)⁶⁷⁴ who observe that Africa and especially Sub-Saharan Africa's formal financial institutions provide little or no financial support in the real estate sector; this problem is compounded by the inadequacies of the real estate finance system. Likewise, commercial real estate developers in Tanzania face a similar problem due to high cost of capital. The interest rates range from 16-20%; this rate is considered to be too high.⁶⁷⁵ High interest rates and other problems during the process of construction create a burden in servicing the loan.

5.5.2 Absence of Real Estate Securities Market

Dar es Salaam Stock Exchange (DSE) which is the only stock market in the country had up to April 2012 only seventeen listed companies. However, amongst the listed companies, none was a real estate company. This shows the difficulty of raising money from the public for real estate development and investment purposes. The Unit Trust of Tanzania (UTT) which was established in 2003, has amongst its objectives, to establish, launch and manage Collective Investment Schemes (CIS) of which REIT is included. The interview conducted with the Director of Finance and Administration of UTT revealed that, registration of REIT is at the final stages, waiting for the legal matters to be sorted out and approval by the CMSA. UTT is expected to raise capital

⁶⁷³ See Kironde et al. (2003), p. 54.

⁶⁷⁴ See Ebohon et al. (2002), p. 16; and Tomlinson (2007), p. 2.

⁶⁷⁵ See the comment by the Minister responsible for Lands in Tanzania, 2011 as reported in the Guardian, 1st November (2011); Business Times, 18th November (2011); also see Rothenberger (2010), p. 98.

for the REIT through an Initial Public Offering (IPO). The government has been giving incentives for listed companies in order to attract more companies to get listed. The incentives to issuers and investors include:⁶⁷⁶

Incentives to Issuers:

- (i) Reduced corporate tax from 30% to 25% for the period of 3 years where the Issuer has issued at least 35% of the issued shares held by the public
- (ii) Tax deduction of all Initial Public Offering (IPO) costs for the purposes of income tax determination
- (iii) Investors in CIS are not charged with corporate tax on the income distributed by CIS after the scheme's income taxation. REIT falls under CIS, hence it is exempt from corporate income tax; investors are only taxed individually on receiving dividends

Incentives to Investors:

- (i) Zero capital gain tax as opposed to 10% for unlisted companies
- (ii) Zero stamp duty on transactions executed at the DSE compared to 6% for unlisted companies
- (iii) Withholding tax of 5% on dividend income as opposed to 10% for unlisted companies
- (iv) Zero withholding tax on interest income from listed bonds whose maturities are three years and above
- (v) Exemption of withholding tax on income accruing to fidelity fund maintained by DSE for investor protection
- (vi) Income received by CIS investors is tax-exempt

5.5.3 High Lending Rates with Short Term Payment Period

Interest rate provided by eight financial institutions (whose officials were interviewed) on housing loans range from 16%-20%, which is considered to be too high for the majority. Three banks offer long-term loans (15-20 years) while many others offer short-term loan (5-10 years). To a great extent, the prevailing interest rates and the

⁶⁷⁶ See DSE website under <http://www.dse.co.tz/main/index.php?page=1>; also see Norman (2010), p. 226.

short term repayment period discourage many property developers from opting for real estate loans. As we have previously seen in the present study, due to high interest rates, some private developers have decided to undertake property development using equity, regardless of how long it took to complete their projects. In addition to that, loan advancement to property developers and non consideration of the end users put trader developers in a more difficult situation. Under such situation, developers have to wait for so long to get buyers for their properties.

On the side of the financial institutions, it was revealed that, they have limited capacity to engage in mortgages due to funding constraints as they lack long term funding, i.e. banks' deposits are short term while mortgage products are long term. Therefore, the funding mismatch forced them to offer short term lending at a high interest rate so as to cover themselves from risks.

5.5.4 Lack of Infrastructure and Surveyed and Serviced Land

Tanzania remains a physically underdeveloped country. The quality of the country's infrastructure is a primary consideration for investors, and high transportation and communication costs detrimentally affect the competitiveness of Tanzanian businesses.⁶⁷⁷ Infrastructure in the country is scanty; its provision is generally in urban areas, the quality of which is below world standard. Many studies (for instance, World Bank (2009); World Bank (2005a); Porter (1980); Kironde (1997); TIC (2008b); Senn and Fratesi (2009); Ebohan et al. (2002); McDonald and McMillen (2007); Tanzania Investment Report (2006); Tanzania Investment Report (2001); Ter-Minassian et al. (2008); Foster and Briceno-Garmendia (2010); Foster (2008))⁶⁷⁸ underscore the importance of infrastructure to all sectors of the economy including real estate.

Infrastructure offers opportunities for local and foreign investments; Tanzania is facing challenges on its investment opportunities due to negative impacts of deficient infrastructure. For instance, it has been reported that in recent years, the flow of FDI in

⁶⁷⁷ USAID (1999), p. vi.

⁶⁷⁸ See World Bank (2009), p. 23; World Bank (2005a), p. 168-170; Porter (1980), p. 222; Kironde (1997), p. 108; TIC (2008b), p.19; Senn/Fratesi (2009), p. 357; Ebohan et al. (2002), p. 7; McDonald/McMillen (2007), p. 306; Tanzania Investment Report (2006), p. ix; Tanzania Investment Report (2001), p. 48; Ter-Minassian et al. (2008), p. 7-8; Foster/Briceno-Garmendia (2010), p. 1-2; also see Foster (2008), p. 12.

Tanzania has been increased; however this flow concentrates on areas with better infrastructure.⁶⁷⁹ Absence of infrastructure and services in newly planned areas in Tanzania has been observed by Kironde et al. (2003)⁶⁸⁰ as amongst the problems which limit supply of housing in urban areas. Also for many years, Tanzania has been suffering from acute shortage of power supply. For instance, a report by TIC (2008b)⁶⁸¹ indicates that insufficiency or lack of power affects the expected national economic growth and results into loss of investment opportunities in the country.

World Bank (2009)⁶⁸² indicates that Tanzania's poor infrastructure indicators in the world and insufficient power supply are considered to be the most serious infrastructural shortcoming in the country. A recent study⁶⁸³ reveals that, the economic costs of power outages are substantial in Africa, the cost in Tanzania is about 4% of the GDP. Also CUTS (2003)⁶⁸⁴ provides that, underdeveloped infrastructure is often pointed out as one of the key constraints to exploiting Tanzania's development potential. This experience in Tanzania is supported by observations by TIC (2008b)⁶⁸⁵ that there have been incidences where potential foreign investors have turned away because of the poor state of energy sector (electricity) in Tanzania.

With higher urbanisation rate, the local authorities in Tanzania lack the capacity to supply planned and serviced land even in urban areas and major cities such as Dar es Salaam. Many plots offered by the local authorities or acquired privately, lack basic services and infrastructure such as water, energy, sanitation and health facilities, roads, public transport, street lighting, and education facilities among other things. For instance, it is estimated that, 75% of housing development in Dar es Salaam city is on unplanned and unserviced land and is accomplished through informal land acquisition.⁶⁸⁶ This shows the necessity of having efficient land delivery system and the inclusion of the service providers in the real estate development framework.

⁶⁷⁹ See Tanzania Investment Report (2009), p. 41; Tanzania Investment Report (2006), p. 16 and p. 18; and Tanzania Investment Report (2001), p. 20 and p. 48.

⁶⁸⁰ See Kironde et al. (2003), p. 63.

⁶⁸¹ See TIC (2008b), p. 16 and p. 19.

⁶⁸² See World Bank (2009), p. 23-24.

⁶⁸³ See World Bank (2010c), p. 184.

⁶⁸⁴ See CUTS (2003), p. 13.

⁶⁸⁵ See TIC (2008b), p. 19.

⁶⁸⁶ See UN-HABITAT (2009), p.11.

5.5.5 Lack of Market Information and Transparency

Real estate markets display limited information; which can lead to inefficiency in resource allocation.⁶⁸⁷ Generally, getting reliable information on land and real estate sector is still a challenge in Tanzania. The real estate market lacks transparency. This creates problems on decision making regarding real estate development and investment not only to foreign real estate developers but also to local developers. Unreliable information and lack of transparency are among the concerns when one tries to understand the property investment opportunities in the country.

For instance, today, one cannot get information on demand and supply of landed properties in the country. There is limited formal land sale market in the country, and little information is available concerning its operation and on environmental compliances. A study by Sosovele (2011)⁶⁸⁸ finds out that, there is increasing number of building permits issued by Dar es Salaam municipal authorities between 2005 and 2009 for construction projects that would have required mandatory EIAs. The author mentions the number of building permits issued by the three municipalities as: about 576 (Ilala), 2,843 (Kinondoni) and 467 (Temeke) albeit without any EIAs being conducted for those projects. The author insists that, those administrative decisions were contrary to the provisions of the First Schedule of the EIA Regulations on the category of projects that require mandatory EIA.

Generally, there is no transparency in the land sector as to the acquisition process; the procedures for acquiring land are not well followed and most of the time not possible getting land documents (such as land title or building permit) on time. Land sector is among the sectors in the country which is highly affected by bureaucracy. This makes it difficult for investors/developers to obtain land and plan for investment projects. TIC is the one which is supposed to assist and provide reliable information to foreign investors in the country. Sometimes the actual practice is contrary to what it is claimed to be by the Centre. For instance, some investors in the country reveal that TIC is not accurately representing the step involved in acquiring land and also there is an impression that TIC does not itself know the process, and others believe that TIC is

⁶⁸⁷ See Tiwari/White (2010), p. 1.

⁶⁸⁸ See Sosovele (2011), p. 128.

misleadingly optimistic in its conversations with would-be investors.⁶⁸⁹ Also a report by USAID (1999)⁶⁹⁰ regarding land issues in Tanzania provides that, there is still a lack of transparency in the land acquisition process and in the site development process; this causes delays and complications on getting land title and delay in completion of building projects in the country. Lack of transparency and reliable information has been cited by a number of authors as one of the challenges which create complexity in the real estate market. For instance, Sayce et al. (2006)⁶⁹¹ note that, unlike equities market, there is no free and easily accessible source of information on real property transaction prices.

5.5.6 Poor Enforcement of the Land Laws

As a developing country, Tanzania is suffering from problems of poor land governance in the land sector.⁶⁹² There is a concern that, government intervention in the land market has been particularly ineffective in promoting property development.⁶⁹³ As observed by Ebohon et al. (2002), the government in Tanzania has, to a large extent, not been effective in enforcing its legislation on the land sector. In most cases there are a number of constraints contrary to what has been provided in the land laws. Practically, land development is not undertaken in the way which is provided by the government regulatory authorities. Despite the land law reform which resulted into the enactment of Land Act No. 4 of 1999 and Village Land Act No. 5 of 1999, their enforcement has proven to be problematic.

Some scholars have attempted to discuss the challenges/constraints on implementation of land laws in Tanzania. For instance, Pedersen (2010)⁶⁹⁴ cites a changing legal framework, restricted access to information, lack of resources, absence of adequate and coordinated land information, too narrow focus on output rather than capacity building and the general concern that the Ministry of Lands regards itself rather as a body for policy making than the implementer. NLUPC (2010)⁶⁹⁵ cites lack of adequate security of tenure for majority of rural and urban people, conflicts of land use

⁶⁸⁹ See USAID (1999), p. 23-24; also see Kusiluka (2012), p. 185.

⁶⁹⁰ See USAID (1999), p. 23, p. 31.

⁶⁹¹ See Sayce et al. (2006), p. 2.

⁶⁹² See Kironde (2009), p. 26.

⁶⁹³ See Ebohon et al. (2002), p. 8.

⁶⁹⁴ See Pedersen (2010a), p. 16-17.

⁶⁹⁵ See NLUPC (2010), p. 9-10.

in rural areas between farmers and pastoralists, land degradation and destruction of water sources, and inadequate human, institutional and infrastructural capital as amongst the challenges facing the land sector. NLUPC (2009)⁶⁹⁶ also mentions lack of security of tenure over land, conflicts in land uses, difficult access to planned and serviced urban plots, uncoordinated land information, and bureaucratic land administration as amongst the problems affecting the land sector in the country.

Kauzeni et al. (1993)⁶⁹⁷ cite the constraints to land use planning which include; unclear land use planning guidelines, lack of coordination and cooperation between the institutions responsible for land use planning, shortage of trained manpower and problems with logistics. Kironde (2009)⁶⁹⁸ cites limited human and financial capacity, inappropriate standards, regulations and procedures for land use planning, regularisation and surveying, politicisation of land delivery outputs and lack of a long-term well-resourced plan to register land parcels in the country as amongst the problems for registering land parcels in the country. In addition to that, Kironde et al. (2003)⁶⁹⁹ observe that, the land delivery system in Tanzania has been remarkably inefficient; characterised by acute shortage of planned, surveyed and serviced plots, unclear and clouded status of tenure for considerable number of planned plots, slow and cumbersome procedures for planning, survey, allocating, and registering land. In Dar es Salaam, for instance between 1990 and 2001, a mere 5% of applications for plots received were allocated.⁷⁰⁰

Despite the reforms, most Tanzanians have yet to realise the full potential benefits of the new land laws in terms of increased access to land or improved management of land. For instance, Huber et al. (2009)⁷⁰¹ provide that only 11% of the landed properties in Tanzania are legally registered. Currently, between 40% and 70% of Tanzania's urban population in the main urban centres live in unplanned settlements. In Dar es Salaam city alone, it is estimated that the figure is as high as 70%.⁷⁰² Details of such properties remain undocumented. With the existing situation in the land sector,

⁶⁹⁶ See NLUPC (2009), p. 11.

⁶⁹⁷ See Kauzeni et al. (1993), p. 59-75.

⁶⁹⁸ See Kironde (2009), p. 13.

⁶⁹⁹ See Kironde et al. (2003), p. 60.

⁷⁰⁰ See CAHF (2011), p. 102; FINMARK TRUST (2010), p. 14.

⁷⁰¹ See Huber et al. (2009), p. 53.

⁷⁰² See Lugoe (2008a), p. 10.

it is difficult to explain a clear path that one could follow to acquire land rights in the country as the sector is uncoordinated and operates outside the regulatory framework. This results in a number of problems such as insecure land tenure, double allocation, land conflicts, proliferation of unplanned settlements etc. Complexity of land laws and weak legal framework also create unfriendly environment for the financial institutions to finance the land sector. Above all, the complexity and problems in land laws and its implementation discourage the development of a formal land market; which to a large extent, remains an undeveloped sector.

However, the government has put in place some initiatives which are aimed at improving the land sector. Among others, the efforts include; the government's National Strategy for Growth and Reduction of Poverty 2011–2015 (NSGRP/MKUKUTA) and the government's Property and Business Formalization Programme, (MKURABITA).⁷⁰³ Also there is a donor funded program known as Strategic Plan for the Implementation of the Land Laws (SPILL)⁷⁰⁴ whose key activities are (i) land registry and land information (ii) geodetic control and base mapping (iii) decentralisation of land administration services (iv) formalisation of property rights in the unplanned urban areas (v) strengthening the dispute resolution mechanisms and (vi) capacity building. Implementation of SPILL is expected to have some impact on the land sector.

5.5.7 Problems with Land Acquisition

Land for property development can be acquired directly from the government or from the individuals through transfer. Generally, both ways of acquiring land are associated with bureaucracy that causes unnecessary wastage of time. This causes delay in undertaking the development which in turn affects every other activity such as delay in completion of the property, increase in construction costs, delay in leasing/selling etc. Real estate related laws and regulations clearly stipulate the procedures for one to acquire land, however, for so many years, implementation of the laws has been a problem.

⁷⁰³ MKURABITA has already been explained in section 4.4.1 of the present work.

⁷⁰⁴ See NLUPC (2010), p. 6-8; and NLUPC (2009), p. 16.

5.5.8 High Construction Costs

As already discussed in Chapter Four and in section 3.5.2 (Table 9), generally costs of construction in Tanzania are high. The situation places the sector not in a competitive advantage. One of the reasons for the high construction costs is escalating prices of building materials and reliance on imported building materials. High construction costs may be one of the reasons for construction of substandard residential properties and developers' failure to engage in large projects.

5.5.9 Exclusion of Some Real Estate Professionals in the Property Development Process

In Tanzania, it is a common phenomenon not to involve some key real estate professionals in the property development process. For residential development, the developers merely use artisans. Commercial property development at least involves a number of professionals. However there is a tendency in commercial project development not to involve all the necessary professionals (in most cases the role of property manager is ignored) in the early stage of property development. Despite the fact that, property managers are the ones who deal with day-to-day complaints and problems of ill-designed buildings, they are normally not adequately involved in the building design and in the project development. They are normally given completed properties to manage and in many cases they find out a number of problems which would have not existed had they been involved earlier. Non-involvement of the property managers at the initial stage of design and property development may bring about a number of property management problems which include for instance, difficulty in property marketing due to poor design, difficulty in repair and maintenances, poor functioning of services facilities within the building such as lifts, and problems relating to uneconomical use of building space.

5.5.10 Lack of Aggressive Marketing

Marketing contributes to competitive advantage, however the findings by Nkamnebe (2006)⁷⁰⁵ shows that, globalised marketing may not ordinarily provide the much-needed panacea for Sub-Saharan Africa's (SSA) development unless the region fashions out, and conscientiously implements pragmatic and innovative response

⁷⁰⁵ See Nkamnebe (2006), p. 322.

strategies to actively position herself in the now ubiquitous globalisation-driven marketing structure. Tanzania does not represent the most popular destination for foreign real estate investment (FREI).⁷⁰⁶ UNCTAD and ICC report (2005) notes that, the country does not have the image abroad that it should have. In addition to that, the country's attractions are not well known and the business environment is considered to be slowly changing.⁷⁰⁷ The report further appeals to the government to improve the country's investment prospects by conducting aggressive marketing. The above findings show that, lack of marketing affects investment and business environment in the country.

Hunt and Lambe (2000)⁷⁰⁸ argue that, only resources that are heterogeneous, imperfectly mobile and asymmetrically distributed amongst rivals (i.e. which are rare), can generate competitive advantage and superior financial performance. Estimated shortage in the housing sub-sector only is 3 million, however due to the challenges facing real estate developers in the country, there are no signs that the shortage is likely to be addressed in the near future. Unlike many developing countries, apart from Group 4 Holdings, Tanzania does not have large private real estate development companies (i.e. master developers). Lack of master developers in the country seems to be another opportunity which, if marketed aggressively, would result into a flow of foreign real estate developers in the country. The findings of this study reveal aggressive marketing of real estate investment opportunities (which is lacking at present) as one of the driving forces for the sector's growth. For instance, a foreign real estate developer/investor, when looking at the website of TIC, would not get much information on the available opportunities in the real estate sector. Despite TIC being the only agency for attracting investment in the country, its website is not even regularly updated.

5.5.11 Many Taxes and Fees

Property investment in Tanzania is subjected to a series of taxes (refer to section 3.4.3 and Table 39). In addition to that, in case of transfer/sale of the property, a capital gain tax of 10% for residents and 20% for non-residents is charged. Stamp duty is charged

⁷⁰⁶ See Rothenberger (2010), p. 3.

⁷⁰⁷ See UNCTAD/ICC (2005), p. 58.

⁷⁰⁸ See Barney (1991), p. 101 as quoted from Hunt/Lambe (2000), p. 21.

at 1%. Landlords also pay withholding tax at the rate of 10% and 15% for residents and non-residents respectively of the rental value, and corporation tax is 30%. On the side of tenants, a VAT of 18% is charged on top of rent.

There is a common concern among real estate developers and tenants that VAT (18%), which has recently been introduced especially in residential properties, has caused further hike in unit prices of apartments and rent in Tanzania.⁷⁰⁹ In 2009 the government abolished VAT exemption on leased buildings, (except for residential buildings owned by institutional developers i.e. NHC and TBA) and serviced apartments. It should be noted that, although NHC and TBA are both government agencies; TBA develops properties for the civil and public servants only, while NHC develops properties for lease and sale to the public. However, in 2010 the government waived VAT exemption for NHC. Therefore, NHC are now supposed to charge VAT on sale and lease of their properties. These have pushed prices and rents of NHC properties up. However, it should be noted that, the VAT of 18% is charged only for VAT registered companies or registered private developers. For properties which are developed for sale, the taxes are paid after the deduction of the costs of acquisition of the subject property (i.e. gains). Table 39 summarises taxes and main costs which are charged on real estate transactions in Tanzania.

Table 39: Main Taxes and Fees Charged on Landed Properties in Tanzania

No.	Tax/Cost	Rate/Amount
1.	<u>Fees paid at Local Authorities & MoLHHSD</u>	Paid once based on size, location and intended use.
	(i) Survey fee	
	(ii) Stamp Duty (in respect of grant of a Right of Occupancy)	Paid once based on the following formula: $[(\text{land rent}-2000)/1000]*50)+190$
	(iii) Deed Plan fee	Paid once, the fee is fixed at TZS 6,000 until 2011
	(iv) Registration fee	Paid once, the fee is 25% of the land rent charged
	(v) Land rent	Paid annually depending on location, size and use of land. The rent is calculated on a fixed amount per square metre. The rent is fairly minimal
	(vi) Certificate of occupancy fee	Paid once, the fee is fixed at TZS 3,000 until 2012
	(vii) Building permit fee	Amount varies, refer to Table 40
	(viii) Property Tax	Paid annually based on the property value. For instance in Dar es Salaam, the rate is 15% and 10% for commercial and residential properties respectively. However, for Ilala Municipal Council the rate is 20% and 15% for commercial and residential properties respectively

⁷⁰⁹ See Daily News, 12th December (2011a); see the Citizen, 28th May (2010b); also see the Guardian, 8th July (2012b).

No.	Tax/Cost	Rate/Amount
	<u>Taxes paid to TRA:</u>	
	(i) VAT on rental income	18% of the rental value, paid annually
	(ii) Withholding tax	10% and 15% of the rental income, interest and/or dividends for residents and non-residents respectively, paid annually
	(iii) Corporation tax	30% of the taxable income
	(iv) Capital gain tax	Is paid on sale of property. The rate is 10% and 30% of the property's net gains for Tanzanian individuals and companies respectively. Non-Tanzanians are charged 20% and 30% of the property's net gains for individuals and companies respectively
	(v) Stamp duty on sale of property	1% of the market value of the property. TRA has delegated local authorities to collect the fee

Source: Land officer from MoLHHSD (2011); PwC (2011), p. 36.

Regarding building permit fees; the fees are calculated on the basis of location of the plot and its size. Table 40 shows the amount of building permit fees for different plot size.

Table 40: Building Permit Fees

Schedule of Charges Square Feet	Total Area (m ²)	Fee for Central Zone (TZS)	Fee for Low Density Zone (TZS)	Fee for Medium Density Zone (TZS)	Fee for High Density Zone (TZS)
1–500	1–46.45	15,000	7,500	4,500	1,500
500–1,000	46.90–92.90	20,000	12,000	7,000	3,000
1,000–1,500	92.90–139.35	30,000	15,000	9,000	5,000
1,500–2,000	139.35–185.80	30,000	23,000	12,000	7,000
2,000–3,000	185.80–278.70	45,000	30,000	23,000	8,000
3,000–4,000	278.80–371.60	75,000	45,000	30,000	18,000
4,000–5,000	371.60–464.50	90,000	60,000	38,000	30,000
5,000–6,000	464.50–557.40	110,000	75,000	52,500	38,000
6,000–7,000	557.40–650.30	120,000	90,000	62,500	45,000
7,000–10,000	650.30–929.00	300,000	200,000	120,000	53,000
	Additional fee for every 92.902m ²	15,000	8,500	7,500	2,000

Source: USAID (2004), p. 133.

5.5.12 Corruption and Bureaucracy

Although corruption in Tanzania has extended veins in all sectors of the economy, sectors that offer rare services are more prone to corruption than others. Land delivery and control of land development are two such services of concern.⁷¹⁰ As already seen in Chapter Four, there was bureaucracy (lengthy procedures) in all levels of land development processes such as land acquisition, surveying, transferring statutory

⁷¹⁰ See Lugoe (2007b), p. 5.

property rights, obtaining title of ownership, getting building permits, and there was delay having all necessary documentations approval. The follow-up on the bureaucratic procedures is time consuming, and attracts corruption in most cases. Bureaucratic procedures and steps in the acquisition of title for land⁷¹¹ motivate many property developers in Tanzania (especially residential property developers) to develop their properties without following the required procedures, which results into mushrooming of unplanned settlement in the country.

For instance, studies by Lugoe (2007b; 2008b)⁷¹² reveal that, 95% of developers in Dar es Salaam city obtained their land from the alternative market trading in unplanned, unsurveyed and unserviced urban land as many developers had lost hope of getting plots allocated in the normal channel of delivery due to bureaucratic and corrupt practices. In addition to observation by Lugoe (2007b; 2008b), most property developers are not only driven into informality but also do not comply with development conditions. Supporting the above observation, Massoi and Sigalla (2010)⁷¹³ discuss the difficulties of getting building permits. The authors maintain that, although the legislations are clear on development condition, reality reveals that the development conditions provided by those legislations before a permit is issued are too many and sometimes complicated; as a result the majority cannot tolerate, hence some developers tend to start building construction without building permit, a situation which has led to haphazard housing development in urban areas.

5.5.13 Government Intervention

This was mainly reported by respondents amongst institutional investors and officials from pension funds. These organisations were sometimes forced to develop properties only to fulfill political interests. Due to such politically motivated decisions, some of their properties are located in areas/regions which do not necessarily reflect best investment. Under such circumstances, the development decisions tend to ignore the concept of highest and best use of land. This observation was also previously reported by Kusiluka (2012)⁷¹⁴ who notes that, real estate related investment decisions are one

⁷¹¹ See Lugoe (2008b), p. 36; the diagram which shows bureaucratic procedures on land delivery in Tanzania.

⁷¹² See Lugoe (2007b), p. 6; also see Lugoe (2008b), p. 30.

⁷¹³ Massoi/Sigalla (2010), p. 77.

⁷¹⁴ See Kusiluka (2012), p. 225.

of the main media through which the government pursued its opportunistic tendencies. Furthermore, the opportunistic tone set by the government and politicians on pension funds operations had a trickle-down effect, which intensified opportunistic tendencies in the sector.

5.6 Specific Challenges Faced by Foreign Real Estate Developers

Interviews with foreign real estate developers revealed that, apart from other challenges which are generally faced by all developers (i.e. local and foreign), they faced specific challenges investing in Tanzanian real estate market. Although many foreign developers seemed to cope with Tanzanian culture, cultural differences which practically influence the behaviour of the industry still pose challenge. Almost all foreign developers covered in this study had to employ locals so as to cope with the business culture. This shows that, without such arrangements, the business environment would be difficult for foreigners.

Although import clearance delays and sometimes with extra-legal levies seemed to affect all property developers when importing construction materials, the complaint was only raised by foreign developers. Delay in importation was greatly caused by TRA officials and the port authority. However, USAID (2004) mentions the causes of delay in importation which amongst others, include multiple government ministries and agencies that handle and process the special permits required for imports, submission of false invoices, submission of incomplete documents with numerous errors by the forwarding agents, and the requirement for original versions of the Commercial Invoice and Bill of Lading to be submitted during clearance.⁷¹⁵

As already mentioned in sub-section 4.3.6, although developers' may possess TIC Certificate of Incentives which offers tax exemption, they are supposed to pay the tax first and then claim a refund. Many foreign developers were not satisfied with the implementation of TIC incentive packages. Practically, TRA takes a long time to authorise tax refund. However, refunds takes time because the committee that decides on them does not meet quite regularly (roughly on a monthly basis), and refunds also involve scrutiny to weed out invalid claims.⁷¹⁶

⁷¹⁵ See USAID (2004), p. 93.

⁷¹⁶ See USAID (2004), p. 26.

A large body of literature shows concern on challenges faced by developers and investors when investing in real estate in foreign countries. For instance, Ball et al. (1998)⁷¹⁷ note that, an international direct property investor faces disadvantage essentially on information costs i.e. cultural barriers to understanding the market, the cost of information acquisition, monitoring costs, and the risk of adverse currency movements. Saloner et al. (2001)⁷¹⁸ provide that, foreign firms entering another market may confront laws, regulations, and institutional procedures that are different from those faced before.

Poorvu and Cruikshank (1999)⁷¹⁹ mention for instance currency risks, political risks, cultural and language barriers, and other legal and tax complexities as challenges faced by developers when deciding to invest outside their country. Kusiluka (2012)⁷²⁰ notes imperfect commitment to be one of the challenges which foreign investors face in their contracting with TIC and the government at large in Tanzania. The author furthermore notes that, dishonesty, bureaucracy and corruption are other challenges which are commonly encountered by foreign investors when dealing with government officials in the country. Having discussed agency conflicts in real estate activities in Tanzania, Kusiluka (2012) also provides a recommendation to foreigners who invest in Tanzania's real estate market. Box 1.2 provides the author's opinion to foreigners investing in Tanzanian real estate market.

In line with the suggestion in Box 1.2, Ball et al. (1998)⁷²¹ provide that familiarity, regulations, market efficiency, risk perception, and cost structure are five difficulties associated with international property investment. Some of the stated problems could be addressed through joint venture arrangements with local partners.

⁷¹⁷ See Ball et al. (1998), p. 334.

⁷¹⁸ See Saloner et al. (2001), p. 337.

⁷¹⁹ See Poorvu/Cruikshank (1999), p. 186.

⁷²⁰ See Kusiluka (2012), p. 185.

⁷²¹ See Ball et al. (1998), p. 346.

Box 1.2: Opinion to Foreigners Investing in Tanzanian Real Estate Market

The fact that cultural factors have influenced the behaviour of the real estate industry, calls for foreign investors to, prior to committing resources, understand the institutional environment which defines the business culture and market behaviour. Foreign investors, instead of owning land through or relying on TIC as the only source of information, could own land through and obtain information from local investors. Local investors could also be potential partners. Investing through joint ventures with local investors could enable foreign investors to avoid many agency problems with a chain of local agents with whom they would be required to engage.

Notwithstanding the proposed alternative actions to be taken by foreign investors, it is important that the government and its agencies build the trust of foreign investors by fulfilling promises and improving the business environment. TIC and the government must also improve their services to investors by increasing efficiency and transparency in their activities. Assertions and promises of good services offered by the government and TIC should be accompanied by testimonials from satisfied existing foreign investors, which should be publicised to give the prospective foreign investors more comfort. TIC should also establish a comprehensive land bank which would ease the process that foreign investors have to go through in acquiring land in Tanzania.

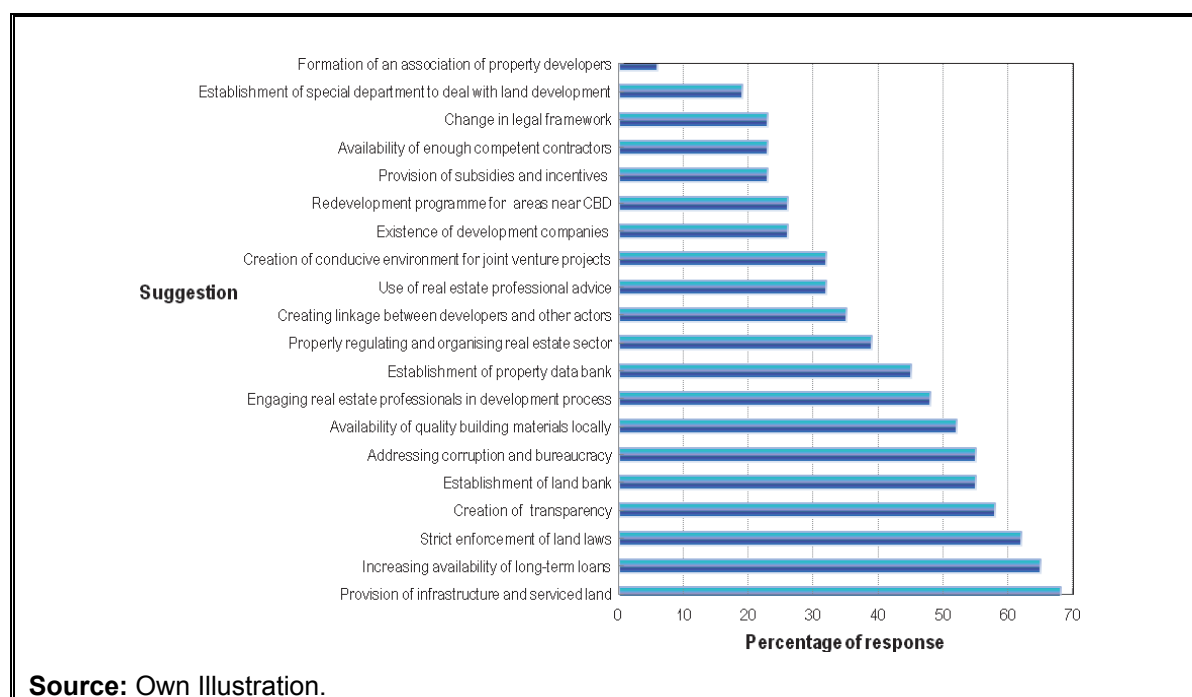
Source: Kusiluka (2012), p. 252-253.

However, as already established in this study, and previously reported by Rothenberger (2010),⁷²² different from local developers, foreign real estate developers seemed to be in an advantageous position when it comes to getting development loans from local financial institutions.

5.7 Developers' Suggestions on the best Practice for Property Development

Respondents amongst local and foreign real estate developers, and real estate professionals, were asked to provide their views on what should be the best practice that property development should follow. Respondents listed about 20 items, out of those 5 appear for the first time in this study. The list of all items and weight assigned to each are as provided in Figure 33.

⁷²² See Rothenberger (2010), p. 99.

Figure 33: Suggestions on the Best Practices in Real Estate Development

As seen in Figure 33, suggestions for achieving best outcomes in the property development highly weighted by respondents include:

- Provision of infrastructure and serviced land (68%)
- Availability of long-term loans (65%)
- Strict implementation of land laws (61%)
- Creation of transparency (58%)
- Establishment of land bank (55%)
- Addressing corruption and bureaucracy (55%)
- Availability of good quality building materials locally (52%)
- Engaging real estate professionals in property development process (48%)
- Establishment of property data bank (45%)
- Properly regulated and organised land sector (39%)

This study also assigns same importance on other items which did not receive much weight by the respondents. These items include; linkage between developers and other actors (35%), use of real estate professional advice (32%), creating conducive environment for joint venture projects (32%), existence of development companies

(26%), redevelopment programme for areas near CBD (26%), provision of subsidies and incentives (23%), availability of enough competent contractors (23%), change in legal framework (23%), establishment of special department to deal with land development (19%), and establishment of association of property developers (6%). The sub-section below only discusses the newly mentioned suggestions.

5.7.1 Existence of Development Companies

As previously discussed, few existing private development companies have not yet been able to play a significant role in Tanzanian real estate industry. 26% of the respondents considered the existence of development companies to be one of the best ways of achieving positive outcome in real estate development. For instance, two respondents maintained that, existence of development companies would enable development to take place in a planned manner, hence curbing down unplanned settlement.⁷²³ Three respondents pointed out further that, with property development companies in place, it would be possible to have high quality and standardised properties in the city.⁷²⁴ It is clear that, given the existing practice of individuals constructing their properties incrementally, the high costs of building construction and shortage of development finance, is unlikely to make the sector achieve significant growth without active real estate development companies taking part in the sector.

5.7.2 Linkage between Developers and other Actors

Although a great majority of Dar es Salaam's population lives in unplanned and informal land, there is hardly any coordination among local actors and land developers.⁷²⁵ The property development in the country is not well organised to include other important actors during the development stage. Actors who were referred to in this study were mostly service providers for electricity and water. These providers are; Tanzania Electric Supply Company (TANESCO) for electricity installation and Dar es Salaam Water and Sewerage Corporation (DAWASCO) for provision of water and sewerage services. Due to lack of coordination between the service providers, MoLHHSD and land developers, one would finish development and then have to wait so long for the installation of the mentioned services. It is common for MoLHHSD to

⁷²³ See Foreign Real Estate Developer 2 (21.10.2011), Interview; also see Real Estate Professional 8 (28.02.2012), Interview.

⁷²⁴ See Local Real Estate Developer 14 (10.10.2011), Interview; Real Estate Professional 1 (14.09.2011), Interview; and also see Foreign Real Estate Developer 5 (01.11.2011), Interview.

⁷²⁵ See UN-HABITAT (2009), p. 15; Mwiga (2011), p. 38.

survey and allocate land without involving other actors in the project planning and implementation, a situation which eventually results into many surveyed plots for instance in Dar es Salaam to remain undeveloped for more than five years after their allocation (refer to government plots for instance in Mbweni, Mwanagati, Tuangoma, Bunju, Kisota, Buyuni, Kibada etc.). There is generally a slow pace of property development in the mentioned areas due to lack of basic services in the neighbourhoods.

5.7.3 Establishment of Association of Property Developers

Two real estate developers⁷²⁶ (one foreign and one local) suggested establishment of an association of property developers. According to these respondents, developers are the ones who bear the burden of poorly regulated land sector, the existence of such association would enable them to have one voice when it comes to influencing institutional changes in their favour.

Although the idea of having an association of property developers seemed not to have been accorded importance by respondents, experience in other countries shows that such associations play a significant role. Examples of few developing countries which have such association include India (Real Estate Developers Association of India), Malaysia (Real Estate and Housing Developers Association Malaysia), Kenya (The Kenyan Property Developers Association (KPDA)), China (The Real Estate Developers Association of Hong Kong (REDA)), Singapore (Real Estate Developers' Association of Singapore (REDAS)), Ghana (Ghana Real Estate Developers (GREDA)), South Africa (South African Property Owners Association (SAPOA)), and Nigeria (Real Estate Developers Association of Nigeria).⁷²⁷

Establishment of such an association in Tanzania would provide a platform for property developers to discuss and seek solution to some of critical problems facing the sector. In addition to that, it is possible to get a forum with other actors, institutions and

⁷²⁶ See Foreign Real Estate Developer 1 (18.10.2011), Interview; also see Local Real Estate Developer 13 (06.10.2011), Interview.

⁷²⁷ See <http://timesofindia.indiatimes.com/topic/Real-Estate-Developers-Association-of-India>; <http://www.rehda.com/>; <http://kpda.or.ke/>; <http://www.reda.hk/>; <http://www.redas.com/>; <http://www.gredaghana.org/greda/>; http://www.propertydir.com/Real_Estate_and_Property/Commercial_Real_Estate/Real_Estate_Institutions/1049-168.html; also see <http://www.redan.org.ng/>

stakeholders whose decisions matter in the real estate sector such as MoLHHSD, local authorities, financiers, board of contractors, TIC, TBS, TRA, NEMC, service providers, companies producing building materials, etc. to discuss key issues. The existence of such association would recommend to the policy makers the best ways of conducting real estate development and guide proper property development. The association would also help to ensure the growth of the real property sector in a more organised, efficient and economical manner.

5.7.4 Creation of Conducive Environment for Joint Venture Projects

Joint venture projects are common between institutional developers and few private developers at present. During this study the contract for undertaking property development in the form of PPP was signed between the Ministry of Home Affairs and Mara Group. Details of the proposed property development are as provided in Box 1.3. It is considered in this study that, joint venture arrangements should be well structured so as to allow wide participation within the private sectors as well. There are private developers with land but they lack resources to undertake development, joint venture arrangement between private developers would accelerate the growth of the sector.

Box 1.3: US \$ 300 million Investment in Tanzanian Real Estate

In July 2012, a Pre-Development Agreement for a new landmark project to develop a state of the art, urban, commercial hub of approximately 3.5 million square feet in Dar es Salaam has been signed between the Ministry of Home Affairs and Mara Capital, part of the Mara Group (a pan-African multi-sector business conglomerate). The project will include the largest retail mall in East Africa, with 2 internationally branded hotels, modern convention centre, modern medical tourism hospital, modern business park, residential compound, modern police station, and 300 residential units dedicated for the police.

The \$300 million project is funded by Mara Group. According to the Chief Executive Officer of Mara Group, Tanzania has a huge gap in the market for high quality integrated, mixed-use real estate development. The Project will commence after eleven months and the land will remain as the property of the Ministry of Home Affairs and Tanzania Police force.

Source: http://www.mara.com/in_the_press.html; The East African, July 16-22 (2012); also see <http://www.globenewswire.com/newsroom/news.html?d=260997>.

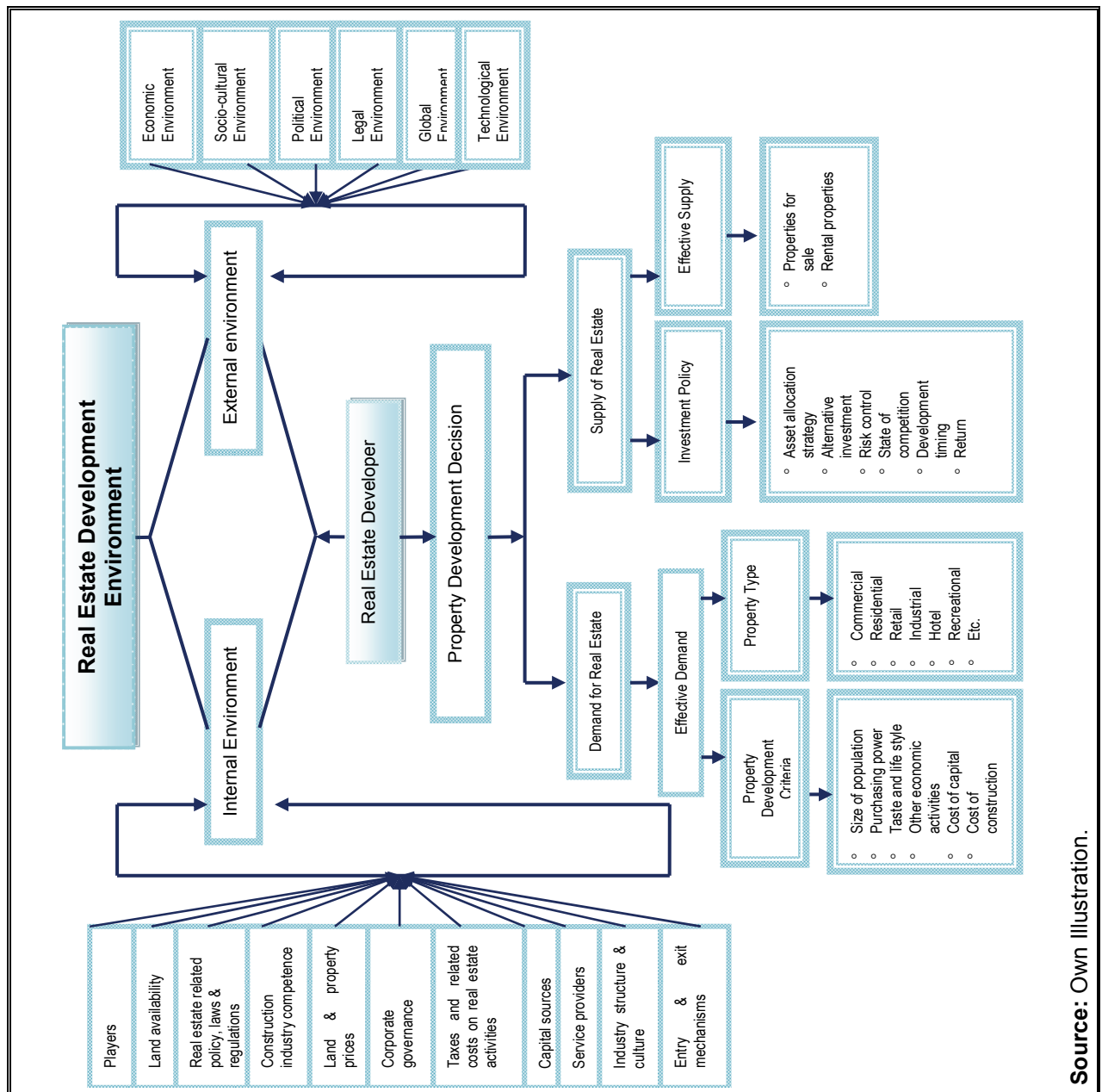
5.7.5 Redevelopment Programme for Areas near CBD

Other respondents were of the opinion that the government, through local authorities, could undertake redevelopment of areas near CBD. This concern was raised due to the fact that, most of buildings near the CBDs are old, worn-out and outdated. The areas mentioned by respondents include Kariakoo, Magomeni, Mwananyamala, Kinondoni, Ilala, Buguruni, and Manzese. Most of the buildings in the mentioned areas are single storey. In the respondents' opinions, these buildings were to be replaced with high rise buildings. Although there is no significant change without much government intervention; a number of private developers have started showing interest in developing such areas.

5.8 Proposed Real Estate Development Framework with Reference to Poorvu's Model

5.8.1 Conceptual Framework

A clear real estate development framework provides guidance on evaluating development activities with the objective of making quality and reliable decisions. Global competitive business environment requires a flexible framework which takes care of key competitiveness aspects. In order to achieve a competitive real estate development and improve investment environment in the country, there is a need to align the key competitiveness and growth aspects within the whole process of property development. The proposed framework (Figure 34) shows real estate development environment as a relationship between interdependence and linkages of attributes which are within internal and external environment. Internal and external environment influence the decision on new property development. However, developer's ultimate development decision is reached based on the effective demand for a particular property type. Proper assessment of the real estate framework would enable a developer to make rational decisions on when and where to develop a certain type of property, at what size and quantity, and in which segment to serve. A proposed conceptual framework for the real estate development market is as provided in Figure 34.

Figure 34: A Conceptual Framework for the Real Estate Development Market

5.8.1.1 Real Estate Development Environment

The real estate development environment is influenced by internal and external forces. A developer is at the middle assessing the relationship between property users, and the internal and external environment which eventually determine his/her development decision. The developer is expected practically to make development decision after thorough analysis of effective demand. However, the developer uses different criteria to make rational decisions. These criteria amongst others include population size, assessment of tenants'/purchasers' income (purchasing power), their tastes and life

style, attractiveness of other economic activities, efficiency of other institutions dealing with real estate activities and the cost of construction.

On the other hand, the developers (especially institutional developers and pension funds) are expected to make decisions on supplying properties based on their investment policies and assessing property effective supply. Investment policy is expected, amongst others, to provide guideline as to the asset allocation strategy, attractiveness of alternative investments (i.e. diversification), risk control, state of competition, timing of property supply, and return. While effective supply determines property types with regard to the decision of whether to supply properties for sale or renting, effective demand, amongst others, takes account of property types which are highly demanded at the particular time.

Analysis of effective demand guides property developers to undertake construction of specific property types which are needed in the market. On the other hand, analysis of effective supply of properties in the market guides the developer to supply properties either for sale or for renting.

5.8.1.2 Internal Environment

- **Players:** As already discussed in section 3.9.3, players, including real estate developers, landlords, construction companies, builders, real estate agents, tenants, buyers, educators, researchers, real estate professionals, financial institutions and the government with its institutions, international real estate consultancy firms and institutions such as Jones Lang LaSalle, CBRE, RICS, IPD, Emerald etc. facilitate the property market in different ways. International real estate companies are also regarded to be important players in their roles of conducting property market research which guides property developers and investors on decisions making. For instance, an interview with one official from financial institutions⁷²⁸ revealed that, the respondent's bank did not have in-house real estate expert, instead the bank used *Property Reports* to gauge successful loan applicants. That situation shows that, property reports which are mostly published by international real estate firms play significant roles to different real estate players.

⁷²⁸ See Official from Bank C (28.09.2011), Interview.

Commitment of different players determines attractiveness of a property as an investment. Players influence property development attractiveness and timely income generation. On the other hand, developer's ability to attract buyers and tenants to new development is determined by the effectiveness of various players. To a great extent, players determine success of the development project.

- **Availability of land:** Availability and easy access to land, strong property rights guarantee and protection gives the real estate development industry a competitive advantage to its competitors.
- **Real estate related policy, law and regulations:** Policies, law and regulations relating to real estate and their enforcement have the ability of encouraging or discouraging participants in the real estate market. For instance, policies reducing land prices may encourage a relatively high supply of new space in response to growth in rents and capital values, and such a supply would reduce the rate of rental inflation.⁷²⁹ Attractiveness of real estate related policies, laws and regulations are one of the key factors which are considered by foreign real estate developers when making decision of developing/investing in a foreign land.
- **Construction industry competence:** Competence of the construction industry and guarantee of high quality of building determines property development success. The construction industry which enables high quality of buildings through proper design and production of locally environmentally-friendly building materials at affordable costs would stimulate the development sector.
- **Land and property prices:** Reasonable land and property pricing would attract more participants in the development market. The market which is not well organised and regulated allows prices of land to be inflated and also tends to limit land availability to developers.

⁷²⁹ See Tiwari/White (2010), p. 189.

- **Good governance:** Good governance determines the business conduct. Weak governance in the land sector was seen to be the main cause of opacity and its associated problems in the sector. Success and growth of the real estate development and investment sector requires strong governance in land sector. Strict enforcement of real estate related laws and regulations are likely to bring significant changes in the sector. Many reputable developers (especially foreigners) will not for instance, prefer to enter in an investment environment associated with corruption practices.
- **Taxes and related costs on real estate activities:** Too many taxes on real estate activities create burden to the participants. Some taxes which create unfriendly development and investment on land and real estate activities need to be abolished.
- **Capital source:** Timely availability and cost of capital influence availability of real estate. Shortage of capital can discourage even the most carefully conceived development projects. Conducive environment should be created to attract financial institutions and other financing arrangements to take part in financing real estate sector.
- **Service providers:** Availability and quality of services play a significant role in the speedy growth of the real estate development sector. Decisions of service providers influence the quality of development sites and neighbourhoods. They also increase or decrease marketability and value of the development property. Balanced allocation of service in a region/city would enable balanced property development and discourage development of unplanned settlement. As previously seen in the present work, lack of services is one of the factors which have contributed to the proliferation of unplanned settlement in the country.
- **Industry structure and culture:** Structure of the industry and its culture of doing business act as incentives or disincentive for new participants (especially foreign developers) to be attracted into the local market. The presence of bureaucracy,

corruption, lack of commitment, dishonesty and untrustworthiness may discourage new participants into the real estate market.

- **Entry and exit mechanisms:** Entry and exist mechanisms could be made easy to enable real estate participants to make informed decisions. Owing to their capital intensiveness and lumpiness of real estate development and investment projects, and the presence of flexible regulations as to the entry and exit, would stimulate activities in the sector.

5.8.1.3 External Environment

Growth and competitiveness in the real estate development depends on a number of aspects which are outside the control of the industry itself. These aspects have positive or negative impacts on the growth of the real estate activities. As shown in Figure 34, external forces which affect real estate development are as discussed below:

- **The economic environment of a country:** Amongst other things, economic environment determines per capita and national income, money and capital markets operations, interest rates, inflation rates, provision of infrastructure, demand dynamics, supply situation, pricing factors, cost of property development, taxes on real estate transactions, change in tenants tastes, degree of competitiveness, and expected return from investment. Success of real estate sector growth, amongst others, depends on the economic environment of a country.
- **The political and legal environment:** These refer to the influence exerted by the three political institutions i.e. legislature, executive and judiciary in shaping, directing, developing and controlling business activities. Important political aspects in this category include; the constitution of a country, political institutions, political stability, corporate governance, the judicial system and conflict resolution institutions, image of the country and its leaders, international trade regulations and restrictions, real estate related laws, policies and regulations, investment policies, policies for foreigners, business entry and exit, environmental regulations and protection, flexibility, adaptability, and

implementation of laws. As seen in previous sections, analysis of the political environment and the implementation of various laws, policies, rules and regulations gave an overview of the business environment in the country.

This study has shown that stable political environment is one of the competitiveness dimensions for Tanzania. 70% of interviewees considered Tanzania's stable political environment to be one of the competitive advantages in attracting especially foreign developers and investors. However, weak enforcement of land laws, corruption and bureaucracy seemed to discourage property development in the country. Political environment has an impact on encouraging or discouraging property development, and hence the growth of the sector. Active transaction in real estate development and investment activities is also determined by change in political leadership.

- ***The socio-cultural environment:*** Culture will affect how different actors within real estate relate to and interact with each other.⁷³⁰ Among other things socio-cultural aspects include; demographic trends (population size, quality, income, preferences, affordability, behaviour etc.), skills and education, income distribution, standard of living, life style, culture and belief, perceptions, norms and value, consumer preference, ethics and business culture, and social responsibility. To a great extent, socio-cultural environment determines developers and investors adaptation to the Tanzanian real estate local market. Some aspects of socio-culture in Tanzania seemed to be somehow favourable though requiring some improvements.
- ***The technological environment:*** This refers to the systematic application of scientific or other organised knowledge and skills to practical tasks. High level of technology puts a real estate industry in a competitive position as there will be new innovation for instance in building technologies, architectural designs; which eventually results into high quality and standardised buildings at the lowest possible costs. The technological environment is enhanced by expertise, innovations, rate of technology transfer, energy production, market research,

⁷³⁰ See Tiwari/White (2010), p. 95.

research and development (R&D), and level of information technology. Tanzanian real estate market has been seen to have weak technological advancement, which has resulted into, among others, importation of most of construction material, and heavy reliance on brick and mortar as the sole building construction technology. Sound technological environment could probably minimise developers' reliance on imported building materials as well as minimise the cost of property development. Technological advancement in property development would also address some problems associated with management of unplanned settlements.

- ***The global environment:*** Key aspects which are considered include, amongst others, technology transfer, competitors (who are the competitors, their strengths and weaknesses, what are they offering, product standards, production capacity, core competencies etc.), inflow of FDI in the real estate industry, expertise, professionalism at the international standard level, possibility of market transfer and joint venture, creativity in design and building technology. Lack of development finance, lack of technological innovation in the construction industry, and abundance of undeveloped land call for competition from outside. Foreign developers are likely to bring new property construction technologies including sustainable building construction technologies. The outcome of global environment would probably be seen in the planned manner of property development with standardised buildings, and in the reduction of costs of construction. However, identified weaknesses in the sector need to be addressed first.

It is clear that the framework cannot totally capture all the themes or complexities of property development. Developers should be aware that environment within which real estate development operates is not static, meaning that decision on real estate development in Tanzania market should not be considered exclusively within the dimensions which are provided in Figure 34. Different factors may affect the completeness of the framework. Cognizant of the lack of a defined framework to guide real estate developers on property development decisions in the country, the proposed framework largely provides an overview of how to respond appropriately to the development environment. Also it provides a guideline on key aspects which

developers need to take into account when making development decisions. In the same way, foreign real estate developers need to weigh the existing environment so as to make informed decisions when thinking of Tanzania as a real estate investment market destination.

5.9 Chapter Summary

This chapter covered analysis of the perceptions of local and foreign real estate developers, real estate professional and officials from financial institutions on the growth of the Tanzanian real estate sector. The chapter also presented the findings on the general real estate development and investment environment. Although the findings show that the sector is not well organised, it was generally established that the development and investment environment was satisfactory. Respondents in this study also described strategies for achieving the sector's growth. The findings also show that, apart from the challenges facing all real estate developers, foreigners had specific challenges. Having described the development environment and challenges faced by the real estate industry, the study comes up with a number of recommendations on the best practice that the real estate sector could follow. The findings show strong relationship between the drivers for competitiveness and the suggestion for the best practice in the real estate sector. This is also supported by various strands of existing literature.

The chapter also provides a theoretical framework for the real estate development sector with reference to Poorvu's model. As for the conceptual model for real estate competitiveness (Figure 30), the framework for the sector's growth also strongly considers the importance of internal environment. The situation which clearly explains that growth of the sector requires alignment of the real estate developers' objectives with the sources of competitive advantage. The following chapter will provide general conclusions of the study where comparison of the key aspects that were mentioned as competitiveness drivers and the strategies for achieving sector's growth would be discussed.

6 Summary and Concluding Remarks

Tanzania's macroeconomic policy and structural reforms since the mid 1980s have to a great extent created a conducive environment for private sector and foreign investment growth. The GDP growth has been impressive since then and the contribution of other economic sectors such as manufacturing, construction, transport, and communication has been increasing. Although agriculture used to have greater significance to the country's economic growth, the services sector has recently seen to surpass it. Given the ongoing institutional reforms, real estate development and investment environment has significantly improved as well. Since the reform period, the sector which was dominated by NHC has attracted pension funds and a considerable number of private local and foreign developers and investors. The skylines especially of major cities such as Dar es Salaam and other urban centres have noticeably changed with mushrooming of modern buildings (i.e. commercial, retail and residential).

However, the presupposition that the real estate sector is not growing at the pace that is practically and economically justified holds true. The sector is currently still underdeveloped. In many countries, real estate is a major component of the economy. For instance, the contribution of commercial real estate to the GDP in 2010 was 28% (US), 28% (UK), 25% (Germany), 18% (France), 15% (Italy), 8% (Spain). In 2009, the sector contributed 5% and 12.6% of India's and China's GDPs respectively. Data and statistics for real estate as a stand-alone sector are not provided for Tanzania. The statistics released treat real estate as one with business services sectors. Between 1992 and 2012, the subsectors' have together contributed about 4.5% to the GDP. For many years the sector is not growing at a proportional pace with the growth of the Tanzanian economy.

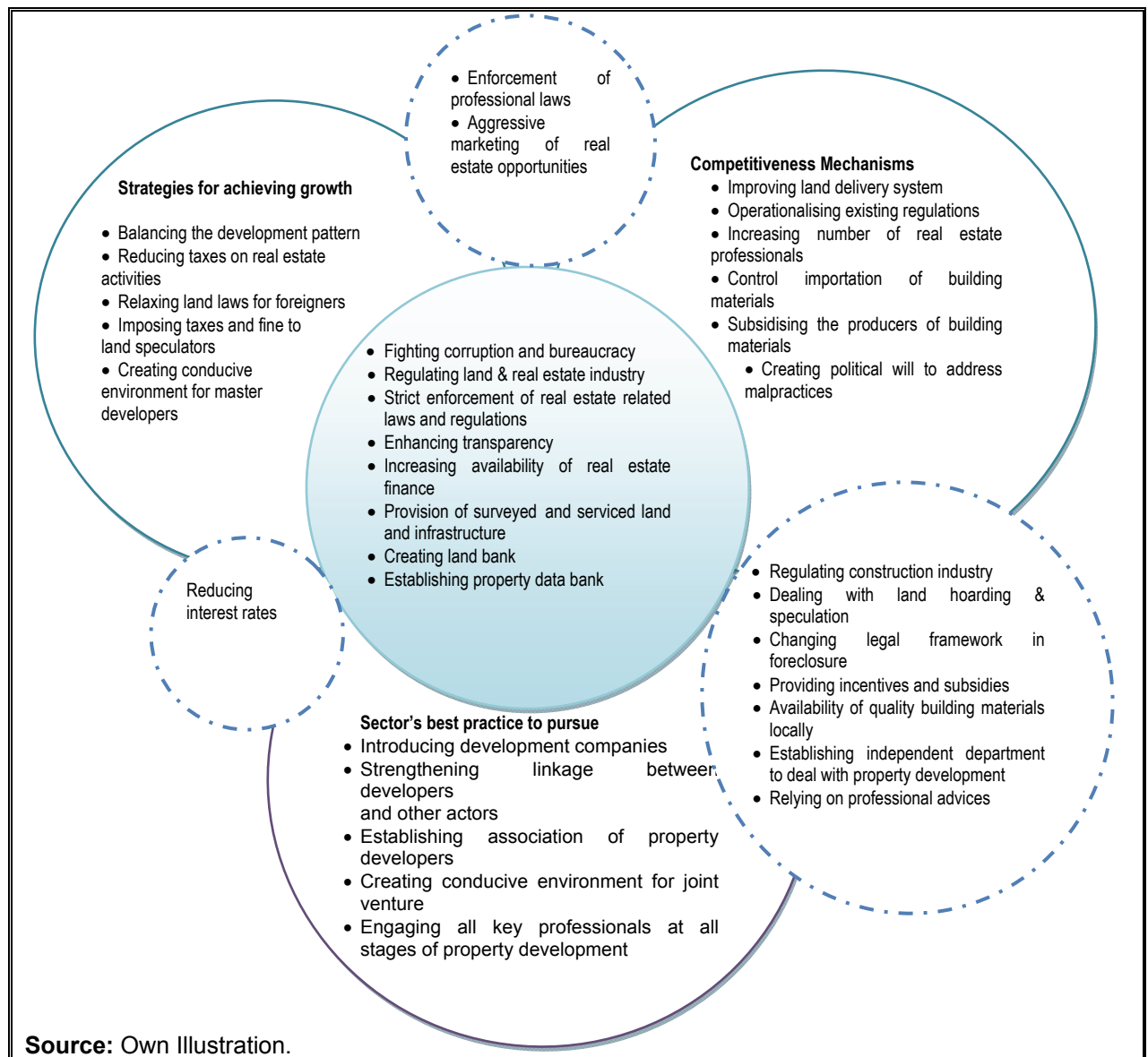
Based on the findings of this study, three hypotheses were generated.

The first hypothesis is that *“the slow growth pace of the real estate sector is partly due to inability in exploiting the value drivers which create competitive advantage.”* The study analysed a broad range of potential drivers for real estate development growth. The findings of the study justify the above assumption by showing how effective or

efficient each of the mentioned driver acquired and the role played by each driver in achieving real estate sector's competitiveness. A number of aspects acting as driving forces for the sector's growth were established. The identified drivers were then analysed to isolate the competitiveness indicators for the Tanzania real estate sector.

The empirically established data on the drivers for competitiveness, mechanisms of enhancing competitiveness, strategies for achieving real estate sector's growth, and the strategies for achieving best practice in the sector seemed to converge on similar aspects. This implies that respondents' views on the necessary conditions for the improvement of development and investment environment are key and could be taken on board in a bid to achieve sector's growth and competitiveness. Figure 35 summaries important attributes which were mentioned in the category for mechanisms of enhancing competitiveness, strategies for achieving the sector's growth, and the best practice that the sector could pursue. The attributes at the centre were mentioned in both categories, while the attributes which overlap each other indicate similar items which were mentioned by the two categories.

The present study reveals that, the real estate sector is growing slowly. The study establishes the competitiveness dimensions of Tanzania real estate sector which, if adopted, are likely to boost the growth of the sector. The findings also show that, a number of foreign developers and investors have been attracted into the local market. This suggests that addressing the sector's weaknesses, improving existing business environment and making rational development and investment decisions based on a decision criteria framework will likely enhance competitiveness and hence the growth of the sector.

Figure 35: Growth and Competitiveness Attributes for the Real Estate Sector

The second hypothesis is that “*growth in the real estate property development and investment activities requires a proper framework for decisions making.*” It is clear that, the motive for development decision is demand for properties. However, developers need to be in a position to estimate the effective demand and study the effective supply of properties before making final decisions. Criteria such as size of population, tenants’/purchasers’ income, taste and life style, cost of construction, cost of finance, and activeness of other economic activities could be used by developers when deciding on the property type to supply i.e. commercial, residential, industrial, hotel etc. On the other hand, the institutional developers’ investment policies in most cases

guide their development decisions. Eventually, the effective supply of properties in the market is an important factor when making decision on whether to develop properties for sale or renting. Being able to achieve expected return, developers' decisions are to be guided by a proper framework. Based on the book *"The Real Estate Game: The Intelligent Guide to Decision Making and Investment"* by Poorvu and Cruikshank (1999), the present work has added to academic research by developing a conceptual framework for successful property development decision making. Like any business undertaking, the commercial real estate developer's objective is to maximise profit. The proposed framework considers the importance of internal and external environment, and the specific criteria on reaching the decision to undertake property development project.

The third hypothesis is that *"achievement of competitiveness in the real estate sector requires that it be aligned with the objectives and motivations of the property developers and investors with the competitiveness drivers and dimensions."* Analysis of the real estate sector with regard to Porter's competitive measures generally shows that, Tanzania still has a long way to go. The sector's weaknesses need to be addressed in line with determinants of competitiveness. The need of aligning objectives and motivations of the property developers and investors with the competitiveness drivers is of paramount importance. Real estate competitiveness requires the development and exploitation of more advanced and specialised factor conditions; appropriate demand condition, strong related and supporting industries, and active role of the government. In addition to that, favourable internal environment, friendly general environment, increased competitive rivalry among firms and individual developers and investors, and enabling environment for opportunities, need to be created. Taking into account Porter's point of view that the essence of the decision is often not the financial benefits of the alternatives but strategic issues that are hard to quantify, the study also develops a conceptual competitiveness model for Tanzanian real estate industry.

It is evident from this study that, having abundant land, institutional reforms, improved key economic indicators, political stability, increase in demand for properties, and presence of TIC and its investment incentives in real estate sector are necessary but not sufficient factors for achieving the state of competitiveness in the real estate sector.

Investment Act No. 26 of 1997 provides for investment guarantee against nationalisation and expropriation. In addition to that, Tanzania has signed a number of international agreements including OPIC, MIGA and ICSID which seem to put the country in a competitive advantage internationally. However, the investment guarantee and the international investment agreements signed between Tanzania and other countries are just among the strategies of attracting foreign investment. The sector still suffers from a number of weaknesses which generally makes it less competitive. Despite, for instance, having abundant land, availability of serviced and surveyed land, and infrastructure is still a big challenge. This takes note of Porter (1998)⁷³¹ who points out that, competitive advantage from factors depends on how efficiently and effectively they are deployed. The author further insists that, mere availability of factors is not sufficient to explain competitive success.

The general real estate development and investment environment seemed satisfactory for the real estate developers. However, the main problems were on the enforcement of real estate related laws and regulations in the country. However, foreign real estate developers regarded the laws and regulations not being very supportive for foreigners. The perception was largely due to the fact that foreigners are not allowed to own land in the country, the law allows them to be granted Derivative Rights or leases only for investment purposes. It should however be noted that, derivative rights or leases granted to foreigners have the same status as the Right of Occupancy granted to the citizens. Foreigners can accordingly use derivative titles and leases to secure bank loans. Most of foreigners who took part in this study have invested in commercial properties and residential apartments. When asked about motivational factors for investing in Tanzanian real estate market, foreigners mentioned high demand for modern properties and high returns. The sizeable returns in Dar es Salaam in comparison to African and international standards were mainly achieved within the commercial real estate sector.⁷³²

This study has also revealed a number of barriers for real estate development and investment in the country. Problems ranging from lack of finance, non adherence to real estate related laws and regulations, scarcity of surveyed and serviced land, poor

⁷³¹ See Porter (1998), p. 76.

⁷³² See Rothenberger (2010), p. 193.

land delivery system, poor infrastructure, high interest rates, lack of land bank especially for foreigners, bureaucracy and corruption, lack of transparency, inability to control quality of building construction materials, hiking prices of construction materials, speculative land and property prices, multiplicity of taxes on real estate transactions, lack of aggressive marketing of real investment opportunities, lack of expertise and innovation in the real estate and construction sectors were mentioned to create barriers to property development and investment. In addition to that, except for TIC which was generally perceived to be effective, all other institutions dealing with real estate activities were seen to be ineffective. The ineffectiveness of the institutions significantly discourages real property development and investment activities.

It holds true that, real estate growth requires an attractive and competitive business and investment environment. Constant improvements in the quality of the business environment, addressing the sector's weaknesses, attractiveness mechanisms for private developers (foreigners and locals), and effective supporting institutions are likely to significantly enhance the sector's growth.

It was also noted that some developers did not maximise the use of real estate professionals. This was observed in some pension funds. Despite being among large developers in the country, they did not have staff with real estate education background. Even the few pension funds which employed officers with real estate education background did not adequately involve those officers in property development and investment decision making. This implies that, the property development decisions are made by officers having no specialised expertise on strategic property decision making. Real estate is not just like any other business, the sector's success will hardly be achieved if the role of real estate officers and professionals is not accorded due weight. Real estate sector would likely achieve its highest potential by recognising and involving all necessary players from the initial stage of property development.

Achieving competitiveness and growth in the real estate development and environment sector requires a broad perspective analysis of the investment environment within which the sector operates. As already demonstrated, real estate plays a significant role in fostering economic growth. As such, alternative mechanisms and strategies in the

real estate development and investment activities need to be explored to enhance the sector's competitiveness and growth. The strategies can be realised by analysing the broad perspective of the following:

Firstly, understanding the macro environment is necessary when assessing the real estate sector competitiveness and growth. Amongst others, macroeconomic environment includes the trend of the country's GDP growth, inflation, interest rate amongst. Stable macroeconomic environment to a great extent, determines for instance provision of infrastructure, reliable power supply etc.

Secondly, institutions which are responsible for real estate related laws and property rights, legal, political and social framework, transparency and corporate governance, tax policies, and foreign exchange rate regulations play a significant role in enhancing real estate sector's competitiveness and growth. Economies with high taxes, stringent regulations, and unfair enforcements of contracts, lack of legal recourse, insecure property rights, and monetary instability deter investments.⁷³³ The importance of real estate and associated activities in Tanzania is not given due weight by the policy makers. For instance, Makwarimba and Ngowi, (2012)⁷³⁴ note that, although land (and its associated resources) is identified as essential to the economic development of the country, it is not considered holistically as a cross sector driver of growth along with infrastructure, transport, energy and water. The existing institutions in the country call for overhauling to increase their efficiency in dealing with sector's weaknesses and unfriendly practices, guaranteeing security of tenure, increasing transparency and ensuring active government's role in land and the real estate development and investment activities.

Thirdly, financial markets stability is another aspect which boosts real estate sector competitiveness. Banking and financial regulations, availability of financial services, affordability of financial services, ease of access to loans, availability of mortgage finance and general soundness of financial institutions are some of aspects which create a conducive environment for the real estate sector's growth. From the findings,

⁷³³ See Ifunya (2006), p. 36.

⁷³⁴ See Makwarimba/Ngowi, (2012), p. 16.

it is clear that due to mismatch in the nature of deposit and lending, financial institutions are not capable of meeting the increasing demand for loans for real estate development and purchasing. Real estate financing mechanisms could therefore be improved. Financing arrangements could be broadened to attract more financial institutions and micro finance institutions to participate in the real estate sector. There could also be special financing arrangements for the large developers to ease their access to loans.

Today's global capital markets offer a wide range of financial securities for financing, investing and controlling risks. However, in Tanzania most of the financial securities apply to large multinational companies in other investments. None has been used to finance real estate development so far. This also contributes to the limited funding for real estate. Due to high demand for real estate and stringent mortgage conditions, there is a need for lenders to try using more options of financing. Some of the options could take the form of hybrid of debt and equity instruments. These instruments could, for instance, be in the form of participating mortgages (i.e. low interest rate plus share of income/capital gain), convertible mortgages (i.e. option for a lender to become shareholder) and Mezzanine financing (i.e. second or subsequent loan with a higher interest or share option). Availability of different financing alternatives will enhance growth and competitiveness of the real estate sector in the country.

The banking and financial sector could speed up the process of establishing credit reference bureaus. With credit reference bureaus in place, the track record of borrowers will be easy to establish, meaning that the risk of mortgage defaulters will also be minimised. High interest rates and short term loans were seen as obstacles for carrying out property development. Change in the monetary policy may likely be useful in lowering interest rates and attracting more financiers to take part in financing the real estate sector.

Fourthly, analysis of the country's labour market, amongst others, provides information on people's income and, availability and quality of real estate expertise. Developers, especially foreign developers, would normally be interested to know about labour laws and rights, qualification of labour force, employment of non-citizen, working permits, and the general working environment. Since the country strives to attract foreign

investors, laws and regulations relating to employment of non-citizen need to be competitive. The size of the country's labour market, the average individuals' income and the standard of living are also important in determining the attractiveness of the sector. It is imperative that they are also looked into.

The quality of expertise and the level of professionalism, number of experts, cost of their services and, availability, quality and cost of local building construction materials are other aspects which need to be looked into when building a competitive construction industry. The government could consider subsidising the sector since the main reason for a sharp hike in the cost of construction is high costs of construction materials.

Bureaucratic procedures in ministries and government departments and agencies responsible for land and property development matters should be addressed. Bureaucratic procedures have to a great extent created room for corruption. Improvement in land delivery system, minimisation of bureaucracy, corruption free business environment, enforcement of real estate related laws and regulations are some of the areas that need special attention. Deliberate efforts also need to be taken to regulate inflated (artificial) land and property prices to boost the sector's growth.

It is also clear from the findings that despite having abundant land resources, availability of serviced and surveyed land, and infrastructure is still a big challenge. It is therefore recommendable that the land delivery process could also jointly involve other sectors such as TANESCO, DAWASCO, and Tanzania National Roads Agency (TANROADS) for provision of social services like electricity, water supply and infrastructure. Provision of essential services and infrastructure could address the problem of patches of undeveloped land especially in the outskirts and will control the development of unplanned settlements. The availability of services will attract more development projects and hence boost the sector's growth.

In addressing the problem of land delivery system, it is important for MoLHHSD to put in place strategies for finding large developers (public and private) who would take part in the whole process of identifying unsurveyed areas, planning, paying compensation, surveying, providing basic services and infrastructure. These developers could eventually be issued with plots for carrying out mass development e.g. housing

estates. MoLHHSD and local government authorities could ensure that all real estate related laws are enforced.

Fifthly, to enhance real estate sector's growth, investment promotion framework needs to be looked into. Investment promotion would normally consider issues to do with incentives, subsidies and the general procedures of starting a business. There could be incentives for developers especially large developers. Incentives which are currently offered by TIC have not been seen to be enough. Large developers could be assisted to get easy access to land and development loans, and facilitated to operate in a bureaucracy free environment. Large real estate developers and investors who for instance, embark on the provision of low cost houses or on sustainable buildings, could be considered for subsidies or incentives. Whereas there is public outcry that NHC should reduce the prices of its properties, it is unlikely that NHC will be able to keep the prices of the properties low and still survive commercially, considering the prevailing business environment. NHC is operating in the same development and investment environment with other developers. The Corporation does not have any subsidies which would somehow reduce the costs of construction and hence be in a position to charge low prices and rents. NHC is already charging rent of its properties 15% below the market rent.⁷³⁵ For the survival of the Corporation, selling and rental prices of properties have practically to be determined by the actual cost of construction. Owing to the underdevelopment of the real estate sector and the existing barriers, policy intervention is required to promote the real estate activities. Without such deliberate efforts, the sector will hardly realise its full potential.

Sixthly, the intensity of local and foreign competition, competition among financial services providers, service providers, building materials providers etc. are important aspects for real estate sector competitiveness. High competition could be encouraged because it can lower prices of products and ensure high service quality. Lack of services on surveyed plots was a predicament of many developers, and one of the reasons for mushrooming of unplanned settlements in the country. Improving the capacity of utility companies would likely reduce the existing problem. On the side of construction industry, the industry has recently seen an increasing dominance role of foreign contractors especially from China. The competition in the construction industry

⁷³⁵ See Local Real Estate Developer 8 (23.09.2011), Interviews.

is getting stiff, which is threatening the survival of the local contractors.⁷³⁶ The outcome of stiff competition among financial services providers, service providers and building materials providers for instance, will attract more developers, which will promote the sector's growth. Innovation in the construction industry, which is reflected in the work of building designers, engineers, architects, contractors, producers of building materials etc. is expected to improve the quality of buildings and lower construction costs.

Advancement in the construction industry could also entail adoption of new technologies and concepts such as construction of sustainable buildings and the use of precast (prefabricated) construction technology to allow for standardised buildings at the lowest possible costs. Because the country imports most of the construction materials, it could be possible to import cost effective building technology as well. *Brick-and-mortar*, as the only main construction technology currently in use, has to be replaced with contemporary building technologies. As an alternative to the conventional *brick-and-mortar*, some countries such as South Africa and Botswana are currently using formwork construction technology, which has a potential of reducing construction costs by 40%.⁷³⁷

Seventhly, deliberate efforts of marketing real estate investment opportunities are required to draw attention of foreign investors. TIC which is responsible for attracting foreign investors in the country seemed to be effective in providing support to investors. However, the Centre is not doing enough to attract foreigners. The Centre does not have a land bank and hence no significant marketing of real estate investment opportunities existing in the country. It is clear that, there are many individuals with undeveloped plots but lack means of developing them. While the Centre is working on a land bank, it could also try to find the best way to identify local land owners who are willing to enter into a partnership or joint venture with foreigners. These landowners may be potential partners for joint ventures or other kinds of arrangements which may benefit both parties. Amongst other things, the complexity of existing business environment makes it more difficult for foreign investors.

⁷³⁶ Foreign contractors are said to take 62% and 58% of all the market share of construction works in the country in 2010 and 2011 respectively. See sub-section 3.6.1.3 of the present work; also see CRB (2011), p. 11; The Citizen, 27th April (2012b); and see Daily News, 26th December (2011h).

⁷³⁷ See <http://www.technologyafrica.co.ke/botswana.html>.

The problem of absence of land bank can be addressed by encouraging foreign investors and developers to enter into joint ventures arrangement with local investors. This would minimise a number of problems associated with securing land. Such recommendation was previously reported by Kusiluka (2012).⁷³⁸ Schaefers and Schulte (2012)⁷³⁹ provide that, project development should only be undertaken with corresponding internal know-how or through the adoption of joint ventures with experienced local partners. Property developers who already have TIC incentive certificates were also not satisfied with the delay of getting tax refunds from TRA. For the incentive packages to make sense, TIC and TRA could work out on the causes of delay. TBS on the other hand, being the institution responsible for controlling quality of products, should ensure that only quality building materials are in the market.

TIC could speed up the process of establishing land bank. The presence of land bank is a prerequisite for designing comprehensive marketing program. With land bank in place, it could be possible for instance to know the size of land ready for development, the size of land for commercial use, residential use, retail use, hotel purpose, recreational purpose, industrial use, and institutional use. The land bank will also show the location of each piece of land, this will guide the real estate developers and investors when deciding on where and in which property type to develop. Such kind of information will also guide the developers (especially foreigners) in making informed decisions when thinking of Tanzania as an investment destination. However, transparency in land sector and its associated activities will be a prerequisite for achieving positive outcome from marketing. The marketing of the opportunities in the real estate sector should involve all sectors,⁷⁴⁰ both public and private.

At present, TIC investment incentives does not include tax exemption on prefabricated materials. It is thus recommended that the TIC incentive package could also include tax exemptions on such building materials so as to encourage standardised property development in the country. All over the world efforts are being made to design affordable, sustainable, and quick-to-erect houses. For the Tanzanian real estate sector to be competitive, there is a need to adopt such technologies i.e. changing from conventional technology to new quick-to-build technology. As suggested by CRB

⁷³⁸ See Kusiluka (2012), p. 252.

⁷³⁹ See Schaefers/Schulte (2012), p. 344.

⁷⁴⁰ See UNCTAD/ICC (2005), p. 58.

(2012)⁷⁴¹, some of the innovative building technologies that could be promoted in Tanzania include Slip form, prefabricated construction and Mivan.

The analysis of interviews on the framework and the value drivers for the real estate development leads to the conclusion that realisation of the sector's full potential requires real estate developers' and investors' objectives and motivations to be aligned with the sources of competitiveness within well defined property development framework. Competitive environment has to be created by addressing the sector's weaknesses and exploring the broad perspective of the real estate investment and development environment. This study enriches competitive advantage theory literature by demonstrating the usefulness of the theory in achieving real estate sector's competitiveness. This takes note of Weatherhead (1997)⁷⁴² who insists that, extending Porter's ideas to real estate is a helpful way of bridging the different worlds of real estate and corporate planning. The study also provides a framework and competitiveness model for the real estate sector suitable for the setting obtaining in Tanzania.

The findings and recommendations of this study are also useful in bridging the knowledge gap on the framework that real estate industry could follow and strategies that could be applied to stimulate the sector growth and competitiveness in Tanzania and in other sub-Saharan African countries. Apart from the academic contribution, the findings of this study also have significant implications for policy makers, construction industry, institutions dealing with real estate matters, real estate professionals and stakeholders in achieving sector's full potential through enhanced competitiveness and growth. The study also provides guidance to real estate developers and investors when making development and investment decisions. Foreign real estate developers and investors could also find this study useful in designing strategies for entering into the Tanzanian real estate market. However, there are issues which have been raised in this study that require further research. A different study could be carried out to rank the importance of the competitiveness dimension established by this study (refer to section 4.7) so as to identify the most significant dimensions for the real estate sector in Tanzania.

⁷⁴¹ See CRB (2012), p. 7-8.

⁷⁴² See Weatherhead (1997), p. 39.

Appendices

Appendix 1: List of Interviewees

Appendix 2: Interview Guide

Appendix 1: List of Interviewees

This part contains citation in the main document with reference to the interviews conducted between August 2011 and March 2012. Enclosed are the details of all interview partners who took part in this study. Each interviewee was assigned a number which is used for citation in the main document.

Interview No. 1

Interview with	Local Real Estate Developer 1
Position	Managing Director
Name of the Company	Maksoor's Construction Company
Status of the Company	Private Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	17.08.2011
In-Footnote Citation	Local Real Estate Developer 1 (17.08.2011)

Interview No. 2

Interview with	Local Real Estate Developer 2
Position	Estate Manager
Name of the Company	National Housing Corporation (NHC)
Status of the Company	Institutional Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	16.08.2011
In-Footnote Citation	Local Real Estate Developer 2 (16.08.2011)

Interview No. 3

Interview with	Local Real Estate Developer 3
Position	Estate Management Officer
Name of the Company	Tanzania Communications Regulatory Authority (TCRA)
Status of the Company	Corporate Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	02.09.2011
In-Footnote Citation	Local Real Estate Developer 3 (02.09.2011)

Interview No. 4

Interview with	Local Real Estate Developer 4
Position	General Manager
Name of the Company	Apartment Hotels Ltd.
Status of the Company	Private Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	14.09.2011
In-Footnote Citation	Local Real Estate Developer 4 (14.09.2011)

Interview No. 5

Interview with	Local Real Estate Developer 5
Position	Principal Real Estate Officer
Name of the Company	Local Authority Pension Funds (LAPF)
Status of the Company	Pension Funds Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	20.09.2011
In-Footer Citation	Local Real Estate Developer 5 (20.09.2011)

Interview No. 6

Interview with	Local Real Estate Developer 6
Position	Senior Real Estate Officer
Name of the Company	Parastatal Pension Funds (PPF)
Status of the Company	Pension Funds Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	19.09.2011
In-Footer Citation	Local Real Estate Developer 6 (19.09.2011)

Interview No. 7

Interview with	Local Real Estate Developer 7
Position	Senior Project Officer
Name of the Company	National Social Security Fund (NSSF)
Status of the Company	Pension Funds Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	26.09.2011
In-Footer Citation	Local Real Estate Developer 7 (26.09.2011)

Interview No. 8

Interview with	Local Real Estate Developer 8
Position	Director of Property Management
Name of the Company	National Housing Corporation (NHC)
Status of the Company	Institutional Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	23.09.2011
In-Footer Citation	Local Real Estate Developer 8 (23.09.2011)

Interview No. 9

Interview with	Local Real Estate Developer 9
Position	Principal Investment Officer
Name of the Company	Public Service Pensions Fund (PSPF)
Status of the Company	Pension Fund Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	24.10.2011
In-Footer Citation	Local Real Estate Developer 9 (24.10.2011)

Interview No. 10

Interview with	Local Real Estate Developer 10
Position	Senior Investment Officer
Name of the Company	National Social Security Fund (NSSF)
Status of the Company	Pension Fund Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	03.10.2011
In-Footer Citation	Local Real Estate Developer 10 (03.10.2011)

Interview No. 11

Interview with	Local Real Estate Developer 11
Position	Entrepreneur
Name of the Company	NA
Status of the Company	Private Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	13.10.2011
In-Footer Citation	Local Real Estate Developer 11 (13.10.2011)

Interview No. 12

Interview with	Local Real Estate Developer 12
Position	Chief Property Manager
Name of the Company	Tanzania Building Agency (TBA)
Status of the Company	Institutional Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	25.10.2011
In-Footer Citation	Local Real Estate Developer 12 (25.10.2011)

Interview No. 13

Interview with	Local Real Estate Developer 13
Position	Senior Investment Officer
Name of the Company	Government Employees Provident Fund (GEPF)
Status of the Company	Pension Fund Real Estate Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	06.10.2011
In-Footer Citation	Local Real Estate Developer 13 (06.10.2011)

Interview No. 14

Interview with	Local Real Estate Developer 14
Position	Director of Finance & Administration
Name of the Company	Unit Trust of Tanzania (UTT)
Status of the Company	Government agency
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	10.10.2011
In-Footer Citation	Local Real Estate Developer 14 (10.10.2011)

Interview No. 15

Interview with	Local Real Estate Developer 15
Position	Managing Director
Name of the Company	NA
Status of the Company	Private Property Developer
Categorisation in this Study	Local Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	07.10.2011
In-Footer Citation	Local Real Estate Developer 15 (07.10.2011)

Interview No. 16

Interview with	Foreign Real Estate Developer 1
Position	Chairperson
Name of the Company	Cosmos Group (T) Ltd.
Status of the Company	Private Property Developer
Categorisation in this Study	Foreign Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	18.10.2011
In-Footer Citation	Foreign Real Estate Developer 1 (18.10.2011)

Interview No. 17

Interview with	Foreign Real Estate Developer 2
Position	NA
Name of the Company	NA
Status of the Company	Private Property Developer
Categorisation in this Study	Foreign Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	21.10.2011
In-Footer Citation	Foreign Real Estate Developer 2 (21.10.2011)

Interview No. 18

Interview with	Foreign Real Estate Developer 3
Position	NA
Name of the Company	NA
Status of the Company	Private Property Developer
Categorisation in this Study	Foreign Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	21.10.2011
In-Footer Citation	Foreign Real Estate Developer 3 (26.10.2011)

Interview No. 19

Interview with	Foreign Real Estate Developer 4
Position	NA
Name of the Company	NA
Status of the Company	Private Property Developer
Categorisation in this Study	Foreign Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	28.03.2012
In-Footer Citation	Foreign Real Estate Developer 4 (24.03.2012)

Interview No. 20

Interview with	Foreign Real Estate Developer 5
Position	NA
Name of the Company	NA
Status of the Company	Private Property Developer
Categorisation in this Study	Foreign Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	16.11.2011
In-Footer Citation	Foreign Real Estate Developer 5 (01.11.2011)

Interview No. 21

Interview with	Foreign Real Estate Developer 6
Position	NA
Name of the Company	NA
Status of the Company	Private Property Developer
Categorisation in this Study	Foreign Real Estate Developer
Place of Interview	Dar es Salaam
Date Interviewed	24.10.2011
In-Footer Citation	Foreign Real Estate Developer 6 (04.11.2011)

Interviewee No. 22

Interview with	Real Estate Professional 1
Position	Managing Director
Name of the Company/Institution	Property Market Consult (T) Ltd.
Status of the Company	Real Estate Consultancy Firm
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	14.09.2011
In-Footer Citation	Real Estate Professional 1 (14.09.2011)

Interviewee No. 23

Interview with	Real Estate Professional 2
Position	Senior Lecturer
Name of the Company/Institution	Ardhi University
Status of the Company	University specialising in real estate related training and research
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	26.10.2011
In-Footer Citation	Real Estate Professional 2 (26.10.2011)

Interviewee No. 24

Interview with	Real Estate Professional 3
Position	Property Manager
Name of the Company/Institution	Knight Frank Tanzania
Status of the Company	Real Estate Consultancy Firm
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	25.10.2011
In-Footer Citation	Real Estate Professional 3 (25.10.2011)

Interviewee No. 25

Interview with	Real Estate Professional 4
Position	Senior Lecturer
Name of the Company/Institution	Ardhi University
Status of the Company	University specialising in real estate related training and research
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	19.10.2011
In-Footnote Citation	Real Estate Professional 4 (19.10.2011)

Interviewee No. 26

Interview with	Real Estate Professional 5
Position	Director
Name of the Company/Institution	URES
Status of the Company	Real Estate Consultancy Firm
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	23.02.2012
In-Footnote Citation	Real Estate Professional 5 (23.02.2012)

Interviewee No. 27

Interview with	Real Estate Professional 6
Position	Senior Estate Officer
Name of the Company/Institution	National Housing Corporation (NHC)
Status of the Company	Institutional Real Estate Developer
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	23.02.2012
In-Footnote Citation	Real Estate Professional 6 (23.02.2012)

Interviewee No. 28

Interview with	Real Estate Professional 7
Position	Valuer and property manager
Name of the Company/Institution	-
Status of the Company	Real Estate Consultancy Firm
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	26.02.2012
In-Footnote Citation	Real Estate Professional 7 (26.02.2012)

Interviewee No. 29

Interview with	Real Estate Professional 8
Position	Valuer
Name of the Company/Institution	LIPAZ Consultants Limited
Status of the Company	Real Estate Consultancy Firm
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	28.02.2012
In-Footnote Citation	Real Estate Professional 8 (28.02.2012)

Interviewee No. 30

Interview with	Real Estate Professional 9
Position	Director
Name of the Company/Institution	Real Estate Company
Status of the Company	Real Estate Consultancy Firm
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	12.03.2012
In-Footer Citation	Real Estate Professional 9 (12.03.2012)

Interviewee No. 31

Interview with	Real Estate Professional 10
Position	NA
Name of the Company/Institution	NA
Status of the Company	Real Estate Consultancy Firm
Categorisation in this Study	Real Estate Professional
Place of Interview	Dar es Salaam
Date Interviewed	18.03.2012
In-Footer Citation	Real Estate Professional 10 (18.03.2012)

Interviewee No. 32

Interview with	Official from Bank A
Position	Loan Administration Manager
Name of the Bank	Azania Bank
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	05.09.2011
In-Footer Citation	Official from Bank A (05.09.2011)

Interviewee No. 33

Interview with	Official from Bank B
Position	Home Loan Manager
Name of the Bank	Stanbic Bank
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	28.09.2011
In-Footer Citation	Official from Bank B (28.09.2011)

Interviewee No. 34

Interview with	Official from Bank C
Position	Advisor Corporate Banking
Name of the Bank	National Bank of Commerce (NBC)
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	28.09.2011
In-Footer Citation	Official from Bank C (28.09.2011)

Interviewee No. 35

Interview with	Official from Bank C
Position	Manager SME Credits
Name of the Bank	National Bank of Commerce (NBC)
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	04.10.2011
In-Footer Citation	Official from Bank C (04.10.2011)

Interviewee No. 36

Interview with	Officials from Bank D
Position	1. Relationship Manager Retail Banking 2. Relationship Manager Corporate & Institution Banking
Name of the Bank	Commercial Bank of Africa (CBA)
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	24.10.2011
In-Footer Citation	Officials from Bank D (24.10.2011)

Interviewee No. 37

Interview with	Officials from Bank E
Position	Manager Credit Analysis
Name of the Bank	Bank of Africa (BOA)
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	10.10.2011
In-Footer Citation	Official from Bank E (10.10.2011)

Interviewee No. 38

Interview with	Officials from Bank F
Position	Head of Retail Banking
Name of the Bank	Kenya Commercial Bank (KCB)
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	21.10.2011
In-Footer Citation	Official from Bank F (21.10.2011)

Interviewee No. 39

Interview with	Officials from Bank G
Position	Manager Loan Approval Corporate
Name of the Bank	CRDB Bank
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	03.10.2011
In-Footer Citation	Official from Bank G (03.10.2011)

Interviewee No. 40

Interview with	Officials from Bank H
Position	Corporate Relationship Officer
Name of the Bank	Exim Bank
Status of the Company	NA
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	04.10.2011
In-Footer Citation	Official from Bank H (04.10.2011)

Interviewee No. 41

Interview with	Official from TMRC
Position	Chief Financial Officer
Name of the Bank	Tanzania Mortgage Refinance Company (TMRC)
Status of the Company	Institution under BoT
Categorisation in this Study	Financial Institution
Place of Interview	Dar es Salaam
Date Interviewed	23.09.2011
In-Footer Citation	Official from TMRC (23.09.2011)

Interviewee No. 42

Interview with	Land Officer 1
Position	Land Officer
Name of the Local Authority	Kinondoni Municipal Council
Status of the Company	NA
Categorisation in this Study	Land Officer
Place of Interview	Dar es Salaam
Date Interviewed	25.10.2011
In-Footer Citation	Land Officer 1 (25.10.2011)

Interviewee No. 43

Interview with	Land Officer 2
Position	Land Officer I
Name of the Local Authority	Ilala Municipal Council
Status of the Company	NA
Categorisation in this Study	Land Officer
Place of Interview	Dar es Salaam
Date Interviewed	19.10.2011
In-Footer Citation	Land Officer 2 (19.10.2011)

Interviewee No. 44

Interview with	Land Officer 3
Position	Land Officer I
Name of the Local Authority	Temeke Municipal Council
Status of the Company	NA
Categorisation in this Study	Land Officer
Place of Interview	Dar es Salaam
Date Interviewed	12.04.2012
In-Footer Citation	Land Officer 3 (12.04.2012)

Interviewee No. 45

Interview with	Land Officer: Ministry of Land
Position	Land Officer
Name of the Organisation	Ministry of Lands, Housing and Human Settlements Development (MoLHHSD)
Status of the Company	NA
Categorisation in this Study	Land Officer
Place of Interview	Dar es Salaam
Date Interviewed	19.03.2012
In-Footer Citation	Land Officer: Ministry of Land (19.03.2012)

Interviewee No. 46

Interview with	Official from TIC
Position	Principal Town Planner
Name of the Local Authority	Tanzania Investment Centre (TIC)
Status of the Company	Government Agency
Categorisation in this Study	Official from TIC
Place of Interview	Dar es Salaam
Date Interviewed	06.09.2011
In-Footer Citation	Official from TIC (06.09.2011)

Interviewee No. 47

Interview with	Official from TBS
Position	Engineer
Name of the Local Authority	Tanzania Bureau of Standards (TBS)
Status of the Company	Government Agency
Categorisation in this Study	Official from TBS
Place of Interview	Dar es Salaam
Date Interviewed	27.10.2011
In-Footer Citation	Official from TBS (27.10.2011)

Appendix 2: Interview Guide

Data Collection for Doctoral Research for Sophia Marcian Kongela

Title: Framework and Value Drivers for Real Estate Development in Sub-Saharan Africa: Assessment of the Tanzanian Real Estate Sector in the Context of the Competitiveness Model

Supervisors: Prof. Dr. Stephan Bone-Winkel
Prof. Dr. Gabriel Lee

Remark to the Interview Guide:

- All information and opinions obtained through this Interview will be strictly used for the academic purpose.
- Analysis of the interviews will purely be for scientific purposes; inference to individuals or firms/institutions will therefore not be possible.

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Thanks you very much for your kind support

Interview Guide to Local Real Estate Developers

1. How supportive are Tanzanian land laws and policy to the local investors?
2. What are the positive aspects of the land laws and policy?
3. What are the negative aspects of the land laws and policy?
4. How did you get your land?
5. What were the costs involved?
6. Are there any problems in acquiring land?
7. If Yes, what are they?
8. Do local real estate developers get different treatment compared with foreign developers?
9. If Yes, how?
10. How do you get building construction materials?
11. What are costs involved?
12. Are there limitation on importation of building construction materials?
13. Are local construction materials good?
14. If No, how?
15. Of a recent, many buildings are constructed using imported construction materials, why is that?
16. Are imported construction materials environmentally friendly?
17. How does the country maintain quality?
18. How many real estate projects have you engaged/developed in Tanzania?
19. In which property use have you invested? Why?
20. What was the time frame to complete your real estate project development?
21. What are the purposes of your property development? (i. e. sale, lease, build operate and transfer, own use and lease etc.)
22. What is the rent from your leased properties?
23. Compared with other investments, how attractive is the real estate investment?
24. How do you finance your property projects/investment? (at what interest rate?)
25. How effective is the financial sector in supporting the real estate industry?
26. How effective are government agencies and offices dealing with land issues and investment promotion in supporting the real estate industry?

27. How effective are the following institutions (courts and other conflict resolution institutions, tax department, financial institutions, immigration offices, land offices, government ministries) in creating friendly investment environment?
28. How do you comment on the general real estate development environment in Tanzania? What are the most problematic investment environment aspects?
29. What should be done to improve the roles of the different institutions in Tanzania?
30. How would you comment on the level of expertise in the real estate industry?
31. What should be done to create competitive environment for the real estate development sector in the country?
32. How would you comment on the growth of the real estate industry in Tanzania?
33. What should be done to promote the growth of the real estate industry?
34. Do you consider corruption to be a serious problem in the land sector? If Yes, what are the forms of corruption?
35. What are the challenges faced by local real estate investors/developers in Tanzania?
36. What are your views on the best practice that property development should follow?

Interview Guide to Foreign Real Estate Developers

1. What motivated you to invest in real estate market in Tanzania?
2. In which property use have you invested? Why?
3. How supportive are Tanzanian land laws and policy to the foreign investors?
4. What are the positive aspects of the land laws and policy?
5. What are the negative aspects of the land laws and policy?
6. How did you get your land? What are the costs involved?
7. Are there any problems in acquiring land? Yes/No. If Yes, what are they?
8. How easy is obtaining land through TIC?
9. Does TIC always fulfill its promises?
10. Have land offices been able to process your requests on time?
11. Do foreign real estate developers get more problems compared with local developers? Yes/No. If Yes, how?
12. How many real estate projects have you engaged/developed in Tanzania?
13. What was the time frame to complete your real estate project development?
14. What are the purposes of your property development? (i.e. sale, lease, Build operate and transfer, sale and lease etc.)
15. What is the return?
16. Compared with other investments, how attractive is the real estate investment?
17. How do you finance your property projects/investment?
18. How effective is the financial sector in supporting the real estate industry?
19. Is Tanzanian people culture different from the culture of the people in your native country? Yes/No. If Yes, what are the differences?
20. How easy is coping with Tanzanian culture?
21. How effective are government agencies and offices dealing with land issues and investment promotion in supporting the real estate industry?
22. How effective are the following institutions (courts and other conflict resolution institutions, tax department, financial institutions, immigration offices, land offices, government ministries) in creating friendly investment environment?
23. What should be done to improve the roles of the different institutions in Tanzania?
24. Do foreign real estate developers get special treatment compared with local developers? Yes/No. If Yes, how?

25. How do you get building construction materials? What are taxes and costs involved?
26. Are there limitations on importation of building construction materials?
27. Are local construction materials good? Yes/No. If No, why?
28. Of a recent, many buildings are constructed using imported construction materials, why is that?
29. Are imported construction materials environmentally friendly? Yes/No. If No, why?
30. How would you comment on the level of expertise in the real estate industry?
31. What should be done to create competitive environment for the real estate development sector in the country?
32. How would you comment on the growth of the real estate industry in Tanzania?
33. What should be done to promote the growth of the real estate industry?
34. Do you consider corruption to be a serious problem in the land sector? Yes/No. If Yes, what are the forms of corruption?
35. What are the challenges faced by foreign real estate investors/developers in Tanzania?
36. What are your views on the best practice that property development should follow?

Interview Guide to Real Estate Professionals
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1. How are you involved in the real estate development/investment decision making?
2. What is your opinion on the general real estate investment environment in Tanzania?
3. What is your comment on the rate of growth of the real estate industry in Tanzania?
What should be done to promote growth in the real estate industry?
4. What should be done to create competitive environment for the real estate development sector in the country?
5. How effective are the following institutions (courts and other conflict resolution institutions, tax department, financial institutions, immigration offices, land offices, government ministries) in creating friendly investment environment?
6. Is the financial sector effective in supporting the real estate industry? If No, why do you think it is not effective?
7. What should be done to improve the roles of the different institutions in Tanzania?
8. What are the drivers for real estate development in the country?
9. What are barriers for real estate development in the country?
10. What are the challenges faced by real estate investors/developers in Tanzania?
11. What are your views on the best practice that property development should follow?
12. What should be done to improve the investment and development environment in order to attract more investors into the real estate market?
13. What strategies do you think should be used to attract foreign real estate investors in the country?

Interview Guide to Officials from Banks

1. Does your institution offer loan for real estate development purpose? Yes/No. If No, why?
2. Do you have in-house real estate experts to evaluate the viability of real estate projects for which loans are applied?
3. Do you have specific type of real estate development ownership that you prefer to finance? (i.e. joint venture, individual, companies, institutions etc.) Yes/No. If Yes, what type of ownership and why?
4. Do you have any priority on the type of property use when offering loans for real estate development? (i.e. Commercial, residential, industrial, hotel etc) Yes/No. If Yes, what type of real estate use and why?
5. What are conditions for one to get a loan?
6. How do you determine the loan amount to advance to the applicant(s)?
7. How many loan applications have you received so far? Out of those how many were for foreign real estate investors/developers
8. How is interest rate determined?
9. What is the current interest rate?
10. What is the average term of real estate development loan repayment?
11. How would you comment on the culture of Tanzanian in debt servicing?
12. What is the default rate? What are bank's strategies on recovering your money in case of default?
13. Do you see real estate sector promising for your business? Yes/No. If Yes, How?
14. What is your comment on the general real estate development environment in Tanzania?
15. How would you comment on the growth of the real estate industry in Tanzania?
16. What should be done to promote growth in the real estate industry?
17. What are challenges in administering loans for real estate development purpose?
18. How supportive/discouraging are the existing laws, policies and regulations related to real estate lending to your business?

Interview Guide to official from Tanzania Mortgage Refinance Company (TMRC)

1. What is the purpose of establishing Tanzania Mortgage Refinance Company?
2. How supportive are Tanzania land laws, policies and regulations to the financial institutions sector?
3. How do you determine the loan amount to advance to the applicant(s)?
4. Have you started to offer loans? Yes/No. If Yes, how many loan applications have you received so far? Out of those how many were for foreign real estate investors/developers? If No, when do you expect to start?
5. How is interest rate determined?
6. What is the current interest rate?
7. How would you comment on the culture of Tanzanian in debt servicing?
8. Do you see real estate sector promising for your business? Yes/No. If Yes, how?
9. How do you comment on the general real estate development environment in Tanzania?

Interview Guide to Official from Tanzania Investment Centre (TIC)

1. What is your role in the real estate sector?
2. Do you have a land bank? What is the percentage of your land bank is earmarked for real estate development purposes?
3. How many buildings construction projects registered by TIC for the past 10 years?
4. How many real estate investors/developers have you served for the past 10 years?
Out of those how many are foreign investors/developers?
5. How significant are foreign investment in Tanzania's real estate sector?
6. How do current land laws and policies encourage/discourage foreign real estate developers/investors in Tanzania?
7. What strategies do you use to attract foreign real estate investors in the country?
8. What are specific incentives provided by TIC to real estate developer/investors?
9. Which of the following property use is the most favoured by foreign investors?
(Commercial, residential, industrial, hotel etc.) Why?
10. Why do you think the turn up of foreign developers/investors in real estate is low compared to other sectors such as mining?
11. What is the impact of the existing foreign investment on the general real estate sector and on Tanzania's economy in general?
12. Which mode of ownership is the most preferred by foreign real estate investors/developers? (i.e. 100% ownership, joint venture, BOT)
13. What problems are reported by real estate foreign investors regarding the investment environment in Tanzania? How do you address the reported problems?
14. What are major huddles to foreign investment/development in Tanzania's real estate industry?
15. What should be done to improve the investment environment to attract more foreign investors in the real estate market?
16. How would you comment on the future trend of foreign investment in the real estate sector? Increase/Decrease

Interview Guide to Land Officers

A: Interview Guide to Land Officer from the Ministry responsible for lands (MoLHHSD)

1. How does the Ministry of Lands establish land demand?
2. How does the Ministry price land?
3. How many applications for Certificates of Occupancy has the Ministry received and how many Certificates has your office issued for the past 10 years?
4. Have you rejected any application for commercial or large investors/developers' Certificates of occupancy in the past 10 years? Yes/No. If Yes, why?
5. Out of all applicants (3) how many were foreign investors/developers? Were there any rejection? Why?
6. There are complaints that the land sector is one of the sectors most affected by corruption, what are the reasons?
7. Do you encounter any problem dealing with foreign real estate investors/developers? Yes/No. If Yes, what are they?
8. Could you briefly provide the costs and fees that one has to pay when applying for the Certificate of Occupancy?

B: Interview Guide to Land Officers from Local Authorities

1. How many plots are available for real estate development?
2. How many real estate investors/developers have you served for the past 10 years?
Out of those how many are foreign investors/developers?
3. What are the procedures involved in issuing building permits?
4. How frequently does the Committee for approving building permits meets?
5. Which costs associated with acquiring the building permit?
6. How long does it take to get a building permit?
7. How many applications for building permits has your office received and how many permits has your office issued for the past 10 years?
8. Have you rejected any application for commercial or large investors building permit in the past 10 years? Yes/No. If Yes, why?
9. There are complaints that the land sector is one of the sectors most affected by corruption and bureaucracy, what are the reasons?
10. Do you encounter any problem dealing with foreign real estate investors/developers? Yes/No. If Yes, what are they?

Interview Guide to Official from Tanzania Bureau of Standards (TBS)

1. Are there standards that producers and importers of building materials need to comply with?
2. How do you control quality of building materials?
3. Do you undertake inspection of the local and imported building materials? If Yes, how frequent?
4. What are disciplinary measures taken against producers and importers of building materials who do not comply with the set standards?
5. What are challenges in maintaining quality of building materials?

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